STATEMENT OF

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COMMITTEE ON ENERGY AND COMMERCE

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Mr. Chairman and members of the Committee, thank you for the opportunity to testify before you today on the Discussion Drafts you have circulated for comment. While the Administration has not had sufficient time to coordinate interagency views of the draft legislation, I am pleased to offer some preliminary comments. This means that the Administration has no formal position on the bill and may take a position at a later date based on the entirety of the legislative package. Most of my remarks are focused on the Discussion Drafts related to the Energy Policy Act of 2005 (EPACT), Title XVII Loan Guarantees, and Standby Loans for Coal-to-Liquids Projects.

The Discussion Draft on amending Title XVII of EPACT contains a provision that would direct DOE to guarantee a loan amount that would likely attract non-guaranteed investments that are adequate to capitalize a project. It further states that DOE may guarantee up to 100 percent of any loan or debt obligation for an eligible project and prevents DOE from issuing a rule or regulation that establishes a lower percentage limit. The Department opposes these requirements for several reasons. First, a provision which would direct DOE to establish a guarantee likely to attract non-guaranteed investments is vague and difficult to implement. The borrower, working with its lenders, is in a better position to determine the amount for which a guarantee is to be sought consistent with its business plan, credit and capitalization requirements. Second, the Department likewise opposes the limitation on its rulemaking authority set forth in the provision. As reflected in its proposed rule published in the Federal Register on May 16, 2007, the Department believes that it should guarantee no more than 90 percent of any debt instrument in order to limit the risk being borne by taxpayers. In addition, it is prudent that the parties responsible (such as those undertaking the financing) for the success of the project bear at least some risk. Federal credit policy states that the level of guarantee should be no greater than that required to achieve the policy goals. Some of the pre-applications received in response to the first Title XVII solicitation requested guarantees of less than 80 percent. The Department also notes that the greater the guarantee percentage for a debt instrument, the greater the subsidy cost that must be paid by the borrower up front to secure a Title XVII guarantee.

The Discussion Draft on Standby Loans for Qualifying Coal-to-Liquids Projects makes valuable contributions to our national discussion to reduce consumption of petroleum and increase the availability of alternative fuels. A domestic Coal-to-Liquid (CTL) industry would provide strategic and potential economic, benefits to the United States. CTL production would diversify our transportation fuel sources, reduce U.S. dependence on imported petroleum, and provide a fuel with other benefits, including the potential of easier control of nitrous oxide and particulate emissions from vehicles using these fuels. It will be important to incorporate state-of-the art air, water, and waste mitigation technologies to ensure that the fuel production plant is not a major source of environmental pollution. Coal-derived liquids contain essentially zero sulfur and require minimal upgrading to produce commercial-grade premium fuels. They are also fungible with petroleum products which enable them to be distributed through the existing fuels infrastructure.

Some studies have concluded that a commercially mature CTL plant could be competitive at today's high world oil prices. CTL facilities would produce emissions comparable to modern, state-of-the-art coal gasification plants and could be configured to cost-effectively capture carbon dioxide emissions, which, if sequestered would help address climate change concerns of emissions at the plant. At the same time, CTL could provide an added source of domestic supplies of liquid fuels to mitigate our heavy dependence on foreign oil imports. Some of the captured CO2 could potentially be used to enhance oil recovery fields, thus adding to our domestic fuel supply.

The Department of Energy's portfolio of research and development on CTL biofuels and other technologies supports the President's proposed Alternative Fuel Standard (AFS) that will displace 15 percent of the projected annual gasoline use by 2017. This is an important element of the President's "20-in-10" program to reduce projected gasoline use by 20% in 10 years. The Department's efforts are focused on overcoming the barriers to the adoption of biofuels and other alternative fuels, including infrastructure, through forging strategic cost-shared partnerships with private industry, and by collaborating with other agencies, and state and local governments. Combined with the financial tools already included in Energy Policy Act of 2005 (EPACT 2005), we believe that this multi-pronged effort will expand the role of domestically produced alternative fuels.

While CTL technology is economically competitive with today's high oil prices, CTL plants have not been built to date because of the high volatility of world oil prices, high capital costs and long lead times associated with permitting and construction, among other reasons. DOE has supported the use of financial incentives that are carefully designed and targeted.

Regarding the proposed standby loans for CTL projects, the Department believes that the Title XVII loan guarantee program might be a more cost-effective means of encouraging the development of CTL projects. Such provisions would provide a price floor for the producers and as such could produce enormous liability for the taxpayers and unwarranted distortions in the marketplace. We have significant concerns with the proposed standby loan program, and therefore would like to work with this Committee on the appropriate incentives for supporting the domestic CTL industry.

While the Discussion Drafts are a good starting point, we believe they all could benefit from further review, discussion, and modification. Mr. Chairman, again, I reiterate this is a very preliminary review, and the Administration's formal position on the entire energy package will depend on the extent to which the concerns that have been raised have been resolved. The Department looks forward to working with the Committee to fine-tune the proposed legislation.

This concludes my prepared remarks, and I would be happy to answer any questions the Committee members may have.