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[Comparative Analysis of Loan Guarantee Authority]. EMD-78-70; B-178726. May 16, 1978. Released May 17, 1978. 4 pp.

Report to Rep. William S. Moorhead, Chairman, House Committee on Banking, Finance and Urban Affairs: Economic Stabilization Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Energy: Effect of Federal Financial Incentives, Tax Policies, and Regulatory Policies on Energy Supply (1610); Program and Budget Information for Congressional Use (3400).
Contact: Energy and Minerals Div.
Budget Function: Natural Resources, Environment, and Energy: Energy (305).
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Congressional Relevance: House Committee on Banking, Finance and Urban Affairs: Economic Stabilization Subcommittee. Rep. William S. Moorhead.
Authority: Department of Energy Act of 1978 - Civilian Applications (P.L. 95-238). Federal Nonnuclear Energy Research and Development Act of 1974 (P.L. 93-577). Geothermal Energy Research, Development and Demonstration Act of 1974 (P.L. 93-410). Energy Policy and Conservation Act of 1975 (P.L. 94-163). Energy Conservation and Production Act of 1976. P.L. 94-385. H.R. 11137 (95th Cong.).

Differences between the generic loan guarantee features proposed by Title IX of the Department of Energy's 1979 authorization request and the existing loan guarantee authority contained in section 207 of the Department of Energy Act of 1978 were examined. Section 207 would give the Department authority to guarantee loans for the construction and start-up of commercial demonstration synthetic fuel projects. Title IX would authorize loan guarantees for projects demonstrating the feasibility of nonnuclear energy technologies, including solar and other renewable technologies. The most important feature in terms of congressional oversight and control, requiring that all loan guarantees over $50 million be reviewed and approved by the Congress, is included in both authorities. Other existing legislation also authorizes the Department to use loan guarantees to demonstrate the commercial viability of new energy technologies. However, Department of Energy officials believe that the existing authorities to guarantee loans are inadequate. The officials argue that Title IX authority would enable the Department to use loan guarantees to stimulate the commercialization of solar technologies. Two basic issues need to be dealt with: the relationship of Title IX to existing legislation and the question of whether loan guarantees are the most effective and appropriate Federal financial incentives for furthering the commercialization of solar technologies. (RRS)

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-178726

May 16, 1978

The Honorable William S. Moorhead
Chairman, Subcommittee on Economic
Stabilization
Committee on Banking, Finance
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

Your April 7, 1978, letter requested our comments on the differences between the generic loan guarantee features proposed by Title IX of the Department of Energy's 1979 authorization request (H.R. 11137) and the Department's existing loan guarantee authority contained in section 207 of the Department of Energy Act of 1978-Civilian Applications (Public Law 95-238) and in other legislation. Section 207 adds a new section 19 to the Federal Nonnuclear Energy Research and Development Act of 1974 (Public Law 93-577). Section 19 gives the Department authority to guarantee loans for the construction and start-up of commercial demonstration synthetic fuel projects. Title IX would authorize loan guarantees for projects demonstrating the technical, environmental, or economic feasibility of nonnuclear energy technologies, including solar and other renewable technologies.

As your staff's comparative analysis indicates, section 19 sets forth many detailed review requirements governing the award and administration of loan guarantees that are absent in Title IX. However, in our view, the most important feature in terms of congressional oversight and control is included in both section 19 and Title IX. It requires that all loan guarantees over $50 million be reviewed and approved by the Congress. Among the requirements in section 19 but not in Title IX are provisions for review of the proposed project by an advisory panel of affected State and Federal officials, review of the proposed project's location by the Governor, and submission to the Congress of annual reports on specific subjects related to the proposed project.

These and a number of other section 19 requirements were established with large capital intensive synthetic fuel

projects in mind, expected to range in cost from about $500 million to over $1 billion. We believe such requirements are worthwhile for large scale projects.

In addition to section 19, other existing legislation already authorizes the Department to use loan guarantees to demonstrate the commercial viability of new energy technologies. The Geothermal Energy Research, Development and Demonstration Act of 1974 (Public Law 93-410) authorizes the Department to make loan guarantees to demonstrate this technology. The Energy Policy and Conservation Act of 1975 (Public Law 94-163) gives the Department authority to guarantee loans for the purpose of developing underground low sulfur coal mines. The Energy Conservation and Production Act of 1976 (Public Law 94-385) authorizes the Department to guarantee loans for the purpose of encouraging the installation of energy conservation and renewable resource energy systems including solar devices.

Department of Energy officials believe that its existing authorities to guarantee loans are inadequate because (1) the authorities are restricted to specific nonsolar technologies; (2) loan guarantee provisions encouraging renewable resource energy systems are either restricted to a national demonstration program or exclude residential buildings of two or fewer dwelling units; (3) loan guarantees only cover the outstanding obligation of principal and not interest. With specific regard to section 19 loan guarantee authority, Department officials believe its requirements are too cumbersome to be effectively used for smaller, less capital intensive solar technologies.

Department officials argue that the Title IX authority, which simplifies the requirements for implementing loan guarantees by permitting the Department to establish generic loan guarantee regulations, would enable it to use loan guarantees to stimulate the commercialization of solar technologies. Department officials advised us that, at this point in time, they have not identified specific technologies to be demonstrated by loan guarantees. However, they feel that the generic authority is needed to expand the technologies for which loan guarantees can be used in the future.

We believe that two basic issues need to be dealt with before the Congress provides the Department with generic loan guarantee authority of the type envisioned in Title IX. First, because the authority is generic and not restricted to solar technologies, its relationship to existing legislation is unclear. For example, it is uncertain whether the Department could thwart the legislative intent of section 19 by using the greater flexibility of Title IX to award loan guarantees to commercially demonstrate synthetic fuel technologies. Clarification of Title IX could be accomplished by amending it either to clearly state that loan guarantees are intended to be used only for solar technologies or by incorporating appropriate overview and control requirements for large scale projects similar to those included in section 19.

The second issue relates to whether loan guarantees are the most effective and appropriate Federal financial incentive for furthering the commercialization of solar technologies. We have not specifically analyzed the pros and cons of loan guarantees for accelerating the widespread commercialization of solar technologies. However, our prior report entitled "An Evaluation of Proposed Federal Assistance for Financing Commercialization of Emerging Energy Technologies" (EMD-76-10, Aug. 24, 1976) spelled out a framework and perspective for determining the appropriateness of Federal financial mechanisms for stimulating emerging energy technologies. We stated that making the right choice among financing mechanisms requires interrelated analysis of at least three factors.

--The technology's state of development. Is the technology developed to the extent that it can be deployed on a broad basis?

--The technology's economic feasibility. Will the energy produced as a result of deploying the technology be economically competitive with competing energy sources?

--The target group whose actions will be influenced. Are they large industrial firms or diverse and widely dispersed groups of homeowners?

Loan guarantees are best suited for situations where the energy technology has been proven to work, the end product is economically attractive, the fixed costs are a major component of total costs, and investor choice is sensitive to relatively small variations in the cost of capital. In such a situation, a loan guarantee can eliminate or reduce any risk premium demanded by investors thereby reducing the interest cost and assuring availability of financing which otherwise may not have been available. Until the Department spells out specific solar technologies for which loan guarantees will be used, the analytical framework which we believe is useful in making decisions can not be applied.

As a final note, Title IX does not authorize the General Accounting Office access to records of recipients of loan guarantees. We suggest that Title IX include provisions requiring loan guarantee recipients to keep records which will facilitate an effective audit; and authorize the Comptroller General of the United States or any of his duly authorized representatives access for the purpose of audit and examination to any books, documents, papers, and records of such recipients which in the opinion of the Comptroller General may be related or pertinent to the loan guarantees. We prefer the above language giving the General Accounting Office discretionary authority to audit recipients of loan guarantees on an as needed basis rather than the section 19 provision requiring the General Accounting Office to audit, at 6-month intervals, all recipients of loan guarantees.

We plan on initiating a review of the Administration's proposals for commercializing synthetic fuels and solar technologies once such proposals are announced. We will coordinate our review with your staff to assure that all aspects of your concerns are covered.

As arranged with your office, copies of this letter are being sent to interested parties and will be available to the public on request.

Sincerely yours,

Comptroller General
of the United States