Written Statement for the Record of David G. Frantz
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Introduction

Chairman Frelinghuysen, Ranking Member Visclosky, and Members of the Committee, thank you for the opportunity to testify before you today. My name is David Frantz, and I am the Acting Executive Director of the Department of Energy's (DOE) Loan Programs Office (LPO). I was the first Federal employee hired for the Loan Guarantee Program, and served as its first Director when I joined, moving from the Overseas Private Investment Corporation (OPIC) on August 5, 2007.

The LPO administers two federal loan guarantee programs – Section 1703 and 1705 – for energy technology projects authorized by Title XVII of the Energy Policy Act (EPAct) as amended; and it administers direct loans for the Advanced Technology Vehicles Manufacturing (ATVM) program as authorized under Section 136 of the Energy Independence and Security Act of 2007 (EISA).

DOE's loan programs are a critical part of our nation's commitment to clean energy. I welcome the opportunity to discuss with you the Department's Fiscal Year (FY) 2013 budget request for the programs, and our significant accomplishments to date.

Background on the Loan Programs

The Section 1703 program was established to support the U.S. deployment of new, innovative technology projects that avoid, reduce, or sequester greenhouse gas emissions. Currently, the program has $18.5 billion in loan guarantee authority for nuclear power projects, $1.5 billion in authority for energy efficiency and renewable energy projects, $8 billion for advanced fossil projects, $4 billion for front-end nuclear projects, and $2 billion in authority that is not allocated to a specific technology sector. Under this authority, the applicant is required to pay the credit subsidy cost of the loan guarantee for their project. In addition, the FY 2011 Continuing Resolution provided $170 million to pay the credit subsidy cost of loan guarantees for renewable energy and energy efficiency projects.

The Section 1705 program was created as part of the American Recovery and Reinvestment Act of 2009 (ARRA) to jump-start the country's clean energy sector by supporting projects that deployed commercial technologies, but had difficulty securing financing in a tight credit market. Section 1705 pursued additional objectives and exhibited slightly different programmatic features than Section 1703. Most notably, applicants under Section 1705 were not required to pay the credit subsidy costs associated with the loan guarantees they received. Those costs were paid through funds appropriated by Congress (applicants paid application and other administrative fees).

Additionally, to qualify for Section 1705, projects had to begin construction no later than September 30, 2011. DOE's authority to enter into new loan guarantee agreements under Section 1705 expired on that date, with $552 million in unobligated, no-year emergency balances. This amount can be used for potential modifications of existing loan guarantees, as needed. Program direction is funded through annual appropriations and is expected to be fully offset by fees.

The ATVM Program was established to expand U.S. business opportunities for advanced automotive technologies that contribute to energy independence and security. Section 136 of EISA 2007 authorizes the DOE to finance U.S. based businesses for manufacturing advanced technology vehicles or vehicle components, and engineering integration facilities. The FY 2009 Continuing Resolution provided up to $25 billion in direct loan authority for the ATVM program, with $7.5 billion in appropriated credit subsidy. Unlike Title XVII, ATVM loan applicants do not pay application fees, and administrative fees are limited to ten basis points of the loan and payable by the borrower on the closing date of the loan. Program direction is funded through annual appropriations.

Evolution of the Loan Programs Office

The DOE Loan Programs Office was established, with strong bipartisan support. It was designed to surmount a financing barrier — the lack of available capital for innovative clean energy projects due to high technology risks and the capital-intensive nature of investments. As such, the LPO supports cutting-edge, innovative, energy technology manufacturing and generation projects in the U.S. in a wide range of sectors including renewables, advanced nuclear, fossil, advanced automotive, and transmission.

From its inception, the LPO has grown from a single employee to a professional finance organization with more than 80 federal employees, supported by nearly 100 subject matter experts and consultants. The current staff constitutes one of the best project finance teams in the world today.

It is important to note that the architecture of the LPO was based on the organization, policies and procedures, systems and lessons learned employed by the U.S. Export-Import Bank (EX-IM), OPIC, and other world-class financial institutions.

Each of the policies and procedures implemented by the LPO to effectively underwrite and monitor energy projects are set forth in the Program's *Credit Policies and Procedures Manual*. The *Manual* was last revised in October 2011 to incorporate lessons learned as well as structural and procedural improvements that have been instituted since the original policies and procedures manual was issued in 2009.

In the past year, the LPO has placed a high priority on developing and deploying state-of-the art business systems, including workflow management and records management systems. Organizing and maintaining verifiable electronic records, including the voluminous financial, technical, credit, legal, and other documents for each project, have taken considerable resources, and the LPO is continuously improving its systems to

ensure accurate application tracking, project management, and ready access to historical and current information.

The workflow management system will interface directly with the records management system and is capable of generating routine monitoring reports on all closed projects. Integrating these systems ensures that LPO historical records are maintained according to archive standards and ongoing project reports are available in real-time to assist monitoring the portfolio.

Recent Accomplishments

It is noteworthy that the DOE Loan Programs Office represents the largest single source of debt financing for clean energy projects in the U.S. (public or private). The LPO renewable projects approved for loan guarantees resulted in the Federal Financing Bank being ranked #1 in the world as a Lead Arranger, as recognized in the *Bloomberg New Energy Finance, 2011 Clean Energy & Energy Smart Technology League Tables*.

At this time, the LPO has committed or closed $35 billion in direct loans and loan guarantees, which finance nearly three dozen projects, with total project costs greater than $56 billion. When it ended on September 30, 2011, the Section 1705 program included a portfolio of over $16 billion in loan guarantees for 28 renewable energy projects. Collectively, LPO projects are expected to support more than 60,000 jobs and deploy alternative energy that will save nearly 300 million gallons of gasoline per year. LPO projects include:

- Several of the world's largest solar generation facilities;
- The first distributed solar generation project on a national scale;
- The world's largest wind farm; and
- The first new commercial nuclear power plant licensed by the Nuclear Regulatory Commission in three decades (conditional commitment).

While the majority of projects closed by LPO under Title XVII are innovative, it is important to note that the commercial projects closed under Section 1705 fulfilled much of the legislative intent of Section 1703 as well. Together, the innovative and commercial projects closed under Section 1705 represent a broad spectrum of technologies, including biomass, geothermal generation, solar generation, wind generation, transmission, and solar manufacturing. In addition, the LPO issued a conditional commitment for loan guarantees for one nuclear power generation project and a uranium enrichment project.

To date, the LPO has also closed five ATVM loans, totaling over $8.3 billion. These projects support advanced vehicle manufacturing projects in eight states.

This portfolio of projects is now managed by the LPO Portfolio Management Division, which employs industry "best practices" in asset management and portfolio monitoring processes and systems. Many of these have also been successfully employed at federal institutions such as EX-IM and OPIC.

In addition to active portfolio management, the LPO is working to close the advanced nuclear power generation project (Vogtle Project), and the AREVA uranium enrichment facility; performing due diligence on several fossil projects; and developing a framework to use the $170 million in appropriated credit subsidy for qualified renewable energy and energy efficiency projects under Section 1703.

The LPO is also proactively addressing the dearth of applications in the ATVM Program by implementing a general outreach program to the automotive industry, utilizing digital media as well as participation in industry conferences and meetings.

FY 2013 DOE Loan Programs Budget Highlights

For the Loan Guarantee Program, the Department requests $38 million for administrative expenses, which are expected to be offset by collections, for a net zero appropriation.

In FY 2013, the program will focus on portfolio management and monitoring of the existing portfolio, as well as originating new loan guarantees to utilize remaining loan authority in the nuclear power, front-end nuclear, fossil, and renewable and energy efficiency sectors.

The Department requests $9 million for administrative expenses of the ATVM Loan Program. In FY 2013, the program will focus on portfolio management and monitoring of the existing portfolio, as well as originating new loans to utilize remaining loan authority and appropriated credit subsidy.

Conclusion

Projects at various stages of review in the LPO loan programs could support tens of thousands of jobs and yield significant benefits to the nation's energy sector when fully operational. Federal financing of innovative energy projects is enabling deployment of new clean energy supply sources into the marketplace as envisioned by Congress.

We look forward to continuing to promote opportunities for the U.S. to stay at the forefront of innovation in clean energy generation and manufacturing, at the same time supporting projects that offer the benefits of replication by the private sector, job creation and pollution reduction while ultimately protecting the interests of the U.S. taxpayer. In administering the Title XVII and ATVM programs, we strive continually to improve our systems and processes to manage loan transactions and portfolios in the most effective and efficient manner possible.

Thank you again for inviting me here today. I look forward to responding to your questions.