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DOE Announces Final Rule for Loan Guarantee Program

Invites 16 Pre-Applicants to Submit Applications for Federal Support of Innovative Clean Energy Projects

WASHINGTON, DC – Secretary of Energy Samuel W. Bodman today announced that the Department of Energy (DOE) has issued the final regulations for the loan guarantee program authorized by Title XVII of the Energy Policy Act of 2005 (EPAct). DOE's action today will pave the way for federal support of clean energy projects using innovative technologies and will spur further investment in these advanced energy technologies.

DOE also today invited 16 project sponsors, who submitted pre-applications last Fall, to submit full applications for loan guarantees. These projects include advanced technologies involving the uses of biomass, fossil energy, solar, industrial energy efficiency, electricity delivery and energy reliability, hydrogen, and alternative fuel vehicles. Projects supported by loan guarantees will help fulfill President Bush's goal of reducing our reliance on imported sources of energy by diversifying our nation's energy mix and increasing energy efficiency.

"Loan guarantees aim to stimulate investment and commercialization of clean energy technologies to reduce our Nation's reliance on foreign sources of energy," Secretary Bodman said. "Finalizing this regulation for the Department's Loan Guarantee program puts Americans one step closer to being able to use new and novel sources of energy on a mass scale to reduce emissions and allow for vigorous economic growth and increased energy security."

The final regulation provides that the Department may issue guarantees for up to 100% of the amount of a loan, subject to the EPAct limitation that DOE may not guarantee a debt instrument for more than 80% of the total cost of an eligible project. Under the final rule, if DOE issues a guarantee for 100% of a debt instrument, the loan must be issued and funded by the Treasury Department's Federal Financing Bank. While Congress must provide authority in an appropriations act for the loan guarantees that the Department will issue, DOE's intent is to only issue loan guarantees if borrowers and project sponsors pay the "credit subsidy cost" for any loan guarantee they receive. Therefore, DOE does not plan to use taxpayer funds to pay for the credit subsidy costs of these loan guarantees.

The final regulation also provides for the following:

- The Title XVII loan guarantee program will be implemented through a series of solicitations. The solicitations may target specific technology areas or be general;
- Eligible projects must employ new or significantly improved technologies that avoid, reduce or sequester air pollutants or anthropogenic emissions of greenhouse gases as compared to commercial technologies in service in the United States at the time the loan guarantee agreement is executed;

- The guaranteed portion of a partially guaranteed loan may be separated from or "stripped" from the non-guaranteed portion, except in cases where the guarantee exceeds 90 % of the loan amount;
- In the event of a loan default, DOE will have a superior lien on all project assets pledged as collateral for the guaranteed loan; however, the final rule allows for the possibility in a default situation that lenders and holders of the non-guaranteed debt could share proportionately with the Department in proceeds from the sale of project assets pledged as collateral. A pari passu structure will not be permitted to override the Department's superior right to project assets;
- The Secretary of Energy must determine that there is a "reasonable prospect" of repayment of the guaranteed debt before a loan guarantee may be issued;
- DOE must charge and collect fees sufficient to cover applicable administrative expenses;
- Borrower–paid Credit Subsidy Costs and administrative fees paid to DOE may not be included within total project costs for the purposes of determining the amount of guarantees that DOE can issue for a project;
- A project's receipt of other governmental assistance does not disqualify a project from receiving a Title XVII loan guarantee; however, when evaluating a project's application for a Title XVII loan guarantee, DOE will consider the extent to which a project will receive other governmental assistance, (e.g., grants, tax credits, other loan guarantees);
- The borrower must have a significant equity stake in a project, and proceeds from guaranteed or non-guaranteed debt, and the value of government grants and other assistance, will not be counted as "equity."

The final rule is the culmination of a public rulemaking process, which began with a Notice of Proposed Rulemaking published May 16, 2007. DOE reviewed and carefully considered all comments it received on the proposed rule.

Congress currently is considering the Department's Fiscal Year (FY) 2008 Budget request for $9 billion in loan guarantee authority and $8.4 million to run the Loan Guarantee office. Both of these actions are important for the successful execution of this program. DOE's issuance of additional loan guarantee program solicitations is dependent on receiving adequate additional authorization from the Congress and funding for the operation of its Loan Guarantee program office.

Today's announcements build on months of action by DOE to implement its loan guarantee program. In August 2006, DOE issued a solicitation inviting pre–applications for up to $2 billion in loan guarantees. By the December 31, 2006 deadline for this solicitation, DOE received 143 pre–applications requesting more than $27 billion in loan guarantee protection (for project costs estimated at more than $51 billion).

The 16 pre-applicants invited today to submit full loan guarantee applications for review must inform DOE by October 30, 2007 if they plan to submit a full application. The applications received will undergo disciplined and rigorous reviews, necessary to take proper account of the potential risks of a project. The full application review will be subject to the final regulations issued today. The decision to issue loan guarantees will depend on the merits and benefits of particular project proposals and their compliance with statutory and regulatory requirements. The pre-applicants not selected to submit full applications from this solicitation can reapply for future solicitations, for which their project is eligible.

The following is a summary of the 16 projects and sponsors invited to submit full applications:

ADVANCED FOSSIL ENERGY PROJECTS

Mesaba Energy Project (MEP-I, LLC): Integrated Gasification Combined Cycle (IGCC) Plant
Minnesota is the proposed location for this project, which plans to build a state-of-the-art IGCC plant

that would allot space in its design for CO_2 capture and storage.

Mississippi Power Company: IGCC Plant
Mississippi is the proposed location for this project, which plans to build an IGCC plant that would commercialize a first-of-its-kind application.

The above two IGCC projects would allow for potential CO_2 capture in the future, would provide state-of-the-art emission controls far exceeding the emission level requirements specified in Section 1703 of the Energy Policy Act of 2005 and would help reduce cost and increase fuel flexibility of IGCC technology.

TX Energy, LLC: Coal to Synthetic Gas IGCC Plant
Texas is the proposed location for this project, which plans to commercialize a new polygeneration gasification facility that can isolate a significant concentrated stream of CO_2 while producing large amounts of power and methanol.

INDUSTRIAL ENERGY EFFICIENCY PROJECTS

GR Silicate Nano Fibers and Carbonates
Washington is the proposed location for this project, which plans a highly energy efficient process for manufacturing paper.

Sage Electrochromics: Electrochromic Window Manufacturing Project
Minnesota is the proposed location for this project, which plans to develop a manufacturing facility that would produce energy-efficient windows for the commercial and residential building sectors.

SOLAR ENERGY PROJECTS

Luz II
Nevada is the proposed location for this project, which plans to develop a highly efficient large-scale power project using concentrated solar-thermal technology.

Solyndra, Inc.
California is the proposed location for this project, which plans to manufacture highly efficient thin-film photovoltaic modules.

ELECTRICITY DELIVERY AND ENERGY RELIABILITY PROJECT

Beacon Power
Massachusetts is the proposed location for this project, which plans to develop a system that will enhance peak performance of electric generation over the power grid.

HYDROGEN PROJECT

Bridgeport Fuel Cell Park, LLC
Connecticut is the proposed location for this project, which plans to build the largest single-site installation of fuel cells in the world.

ALTERNATIVE FUEL VEHICLES PROJECT

Tesla Motors
New Mexico is the proposed location for this project, which plans to build a battery-electric powered vehicle with enhanced range that can be produced for the consumer market.

BIOMASS PROJECTS

Alico, Inc.
Florida is the proposed location for this project, which plans a first-of-a-kind commercial-scale cellulosic ethanol plant that would use multiple feedstocks and produce multiple products.

Blue Fire Ethanol, Inc.
California is the proposed location for this project, which plans to build a commercial-scale cellulosic ethanol plant using an array of low-cost feedstocks.

Choren USA
Southeastern, U.S. is the proposed location for this project, which plans to construct an industrial-scale biomass gasification facility for clean synthetic diesel fuels in the United States.

Endicott Biofuels, LLC
Virginia is the proposed location for this project, which plans to construct a second generation biodiesel and bio-derived products plant that would feature a high level of feedstock flexibility allowing for the production of a broad range of biodiesel fuels.

Iogen Biorefinery Partners, LLC
Idaho is the proposed location for this project, which plans to build a biorefinery to produce ethanol from a wide range of cellulosic feedstocks and to produce other byproducts of value to several industries.

Voyager Ethanol, LLC
Iowa is the proposed location for this project, which plans to build a cellulosic ethanol plant that can accommodate multiple feedstocks in the production of ethanol and higher value byproducts.

Following funding and authorization for the program in February 2007, DOE has established a Credit Review Board to make recommendations to the Secretary of Energy on loan guarantees; named an office director and technical and financial experts to work in the Loan Guarantee program office; and developed guidelines for the financial and technical review of loan guarantee applications.

Review the final regulations and more about DOE’s loan guarantee program.

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