February 5, 2009

TO: Interested Parties

FROM: Matt Bennett, Vice President;
Josh Freed, Senior Policy Advisor;
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RE: Keeping the Senate's Energy Loan Guarantees in the Stimulus

Overview

In the face of the greatest economic crisis in 70 years, it is critical that Congress pass an effective recovery package. President Obama's vision for this plan includes both short-term stimulus to create immediate jobs and also longer-term investments that are essential for our nation's economic growth.[1] Third Way believes that a critical element of both is investment in a clean energy economy, which includes energy efficiency and the development and deployment of renewable and nuclear power.

Both the House and the Senate versions of the American Recovery and Reinvestment Act (ARRA) have taken significant steps in this direction, each allocating more than $90 billion to programs and tax incentives that encourage energy efficiency and renewable energy.[2] The clean energy provisions in the Senate bill, however, include a bi-partisan proposal to greatly expand the existing clean energy loan guarantee program, which essentially provides federal insurance for private sector loans to the clean energy industry.

This new money would provide $50 billion in technology-neutral funding that would leverage significantly more private sector investment, and it would leave it to the experts at the Department of Energy (DOE) to allocate resources based on the merit of the projects.

The expanded loan guarantee provisions in the Senate version of the ARRA should remain in the bill. Congress must encourage every type of clean energy technology, including nuclear energy, if we are to revive the economy, protect our national security and reduce the threat of climate change. These loan guarantees provide some of the resources required to meet that goal, at limited cost to taxpayers.

1. The Senate's loan guarantees provision would aid the clean energy sector and create new jobs at a reasonable cost.

Even before the credit crisis began in September 2008, the United States was not building clean energy capacity quickly enough to meet demand or adequately reduce carbon emissions. The financial crisis has dramatically exacerbated this situation by virtually freezing credit, resulting in the cancellation or suspension of many wind and solar projects in this capital-intensive industry.[3] This problem is also pronounced in the nuclear industry, which has capital costs of $4-6 billion per project.[4]

Government loan guarantees can leverage a minimal amount of federal spending to provide access to significant private sector capital. The proposal requires recipients of the guarantees to pay, upfront, the federal government's expected liability on any loans issued. Borrowers are required to pay a premium that covers the risk of this loan guarantee program. To provide added protection to the taxpayers, CBO requires an appropriation of 1% of the guarantee to provide an additional reserve against default. Consequently, the amendment would leverage $50 billion in clean energy investment with only a $500 million appropriation.

The proposal is technology-neutral—the loan guarantees can go to any nuclear, renewable or other clean energy projects, as determined by DOE. Another portion of the Senate bill would provide up to $95 billion in new loan guarantees that are targeted solely for renewable energy projects. (The parallel House provision is $80 billion.) These guarantees do not require the borrower to pay any premium covering the risk of these loans. Therefore, the government is required to pay the premium, $9.5 billion (or $8 billion in the House bill)—approximately 10% of the loan guarantees—as a reserve against defaults.[5]

Expanding loan guarantees as the Senate bill proposes would provide more access to the private sector capital needed to finance and build new renewable energy projects. Beyond the impact on the US transition to clean energy, this would have a direct impact on jobs. For example, in 2007 (well before the credit crisis), an additional 6,000 jobs were created or announced for wind turbine manufacturing plants based on the development of wind projects whose viability is now in doubt due to the credit crisis.[6]

Similarly, expanding technology-neutral loan guarantees will help jump start the construction of new nuclear facilities, which will help meet both short and longer-term job creation goals. While the permitting of new nuclear plants means they would not begin construction for several years, industries that supply the parts and processes to construction would see immediate job growth. About 15,000 pre-construction jobs were created in 2008 based on $4 billion in private investment in nuclear power.[7]

2. The Senate bill supports all forms of clean energy.

Under current law, DOE's loan guarantee program is segmented into four parts. There is now $10 billion for renewable energy and transmission projects, $8 billion for clean coal, $18.5 billion for nuclear, and $2 billion for the processing of nuclear materials.

As noted above, the Senate version of the recovery bill would add $95 billion to the dedicated fund for renewable energy and transmission loan guarantees, bringing the total in that segment to $105 billion. The Senate bill would also add $50 billion for a new, technology-neutral loan guarantee program that would make funds available for any of the sectors. This technology-neutral authorization would allow experts at the Department of Energy to prioritize projects based on which can best reduce emissions, have the lowest risk of default, and can be completed in the shortest amount of time.

While the Senate bill does *not* explicitly allocate any loan guarantees to nuclear power, it does allow qualified projects to benefit from an expanded loan guarantee program. Third Way believes that providing expanded loan guarantees to nuclear power is particularly important. Nuclear power, which currently provides 20% of US electricity, is the nation's only large-scale baseload power source that does not emit carbon.[8] As power use increases and existing reactors age, the United States needs a domestic nuclear industry that is capable of not only replacing existing reactors but substantially expanding its generating capacity to meet America's energy needs.

Nuclear power will not receive all of the additional $50 billion in guarantees. However, an expanded program will allow all emissions-free power sources to be expanded at a time when we do not have the luxury of choosing which clean energy options meet our fancy—we must develop them all, and quickly.

Conclusion

The expansion of the loan guarantee program is an important tool to reach President Obama's goal of leveraging the economic recovery to help create long-term economic growth and clean energy development. The $50 billion in technology-neutral loan guarantees in the Senate bill would expand capital for all clean energy projects while minimizing taxpayer risk. Proving an additional $95 billion for renewable energy and transmission projects would give this sector critical access to private capital to help it recover from the damage caused by the financial crisis.

Yet this expansion is only a first step in our nation's development of a clean energy economy. Even with the Senate's increase, for example, DOE would be unable to fully meet the $122 billion in applications submitted for nuclear project loan guarantees, let alone the billions of dollars that will be needed for other renewable projects.[9]Moving forward, the federal government must continue to leverage taxpayer dollars to provide both renewable and nuclear energy projects access to significant private capital. To accomplish this, continued expansion of the loan guarantee program will be critical.

Endnotes

[1] Obama, Barack. "American Recovery and Reinvestment," January 8, 2009. (http://www.scribd.com/doc/9917224/Obama-Economic-Speech-American-Recovery-and-Reinvestment-January-9-2009)

[2] Weiss, Dan, and Alexandra Kougentakis. "Energy Investments Power Recovery Packages." Center for American Progress, January 29, 2009.

[3] John Eber, head of renewable energy investing at JP Morgan Capital Corp. predicts that equity investments in renewable projects will drop 20% in 2009 alone. Smith, Rebecca. "Clean Energy Confronts Messy Reality." *The Wall Street Journal*, November 20, 2008.

[4] Mufson, Steven. "Energy Provision May Test Priorities." *The Washington Post*, February 3, 2009.

[5] Foshay, Elena, and Keith Schneider. "Data Points: Comparing Senate and House Versions of Stimulus." Apollo News Service, February 4, 2009; Mufson, Steven. "Energy Provision May Test Priorities." *The Washington Post*, February 3, 2009; Nuclear Energy Institute. "Friends of the Earth Misrepresents Energy Funding Proposal in Congress," January 29, 2009.

[6] American Wind Energy Association. "The Difference Wind Makes.".

[7] *New Nuclear Plants: An Engine for Job Creation, Economic Growth*, Nuclear Energy Institute, p. 2

[8] Energy Information Administration. Existing Capacity by Energy Source. Electric Power Annual, January 21, 2009. http://www.eia.doe.gov/cneaf/electricity/epa/epat2p2.html.

[9] Shively, Bethany. "DOE Announces Loan Guarantee Applications for Nuclear Power Plant Construction." Department of Energy Office of Public Affairs, October 2, 2008.