ML Strategies Update

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Department of Energy Announces $4 billion in Loan Guarantees for Renewable and Efficiency Energy Projects

FIRST SOLICITATION FOR RENEWABLES IN YEARS

Today the US Department of Energy (DOE) issued a draft solicitation for up to $4 billion in new loan guarantees for renewable energy and energy efficiency projects.

While eligibility will ultimately be evaluated on a project by project basis, the loan program has identified five technology areas of interest under this solicitation:

- *Technology Area 1: Advanced Grid Integration and Storage*
- *Technology Area 2: Drop-in Biofuels*
- *Technology Area 3: Waste-to-Energy*
- *Technology Area 4: Enhancement of Existing Facilities*
- *Technology Area 5: Efficiency Improvements*

Applications must undergo a two-part review. In Part I, DOE will determine the initial eligibility of a project. Projects that have received other forms of federal support, such as federal grants or loans, are not eligible. Applications that clear Part I then proceed to Part II, which includes the more rigorous full application process. Eligible and viable projects that are granted a conditional commitment from DOE then undergo the complete underwriting process and negotiation of terms for the loan guarantee. Various fees (of increasing size) are levied at different stages of the process. Based on previous solicitations, the process from time of application to financial close can take up to three years.

Applicants still face significant fees and competition for credit subsidy

Loan guarantees help commercialize innovative renewable energy and energy efficiency technologies that may not be able to obtain commercial financing because of perceived technological risks. But the rigorous and lengthy application process makes the loan guarantee program far from a solution for all interested parties. DOE expects that up to $169 million will cover credit subsidy costs--enough for some guarantees, but not all. Unlike the earlier 1705 program, successful applicants in this solicitation will be required to self-pay directly to DOE the non-refundable credit subsidy cost before, or at the time of, financial closing, to the extent the $169 million allocated for credit subsidy does not cover any portion of an applicants' credit subsidy. The credit subsidy represents the net present value of the loan guarantee's estimated long-term cost to the federal government. Credit subsidy varies by project and technology, but the historical average for utility-linked loans (those with long-term offtake agreements) hovers around 13% of total project costs.[1/] Non-utility-linked projects could see credit subsidy costs exceed 30%. This means that on a loan guarantee of $100 million, a renewable energy applicant with a power purchase agreement would have to pay DOE a non-refundable fee of approximately $13 million if it did not receive any credit subsidy. In addition to the credit subsidy self-pay, the applicant must reimburse DOE for various legal and due diligence costs, some of which are outlined below.

- Application Fee for Part I: $50,000
- Application Fee for Part II: Guarantee Below $150 million is an additional $100,000. Above $150 million is $350,000
- Facility Fee: 1% of Guaranteed amount below $150 million. Above $150 million is 1% + [0.6% of amount over $150mm]
- Maintenance Fee: $500,000 annually.

The credit enhancement the applicant receives through the loan guarantee lowers the interest rate significantly. Still, the loan guarantee process can be a long and expensive one.

DOE is conducting a 30-day comment period on the draft solicitation, and DOE will schedule public meetings to discuss it.

ML Strategies has advised several companies on the process. If you should have any questions about the process, please do not hesitate to contact us. A fact sheet and draft solicitation are attached. The DOE loan program website contains more information about the draft solicitation.

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1/ http://www.whitehouse.gov/sites/default/files/docs/report_on_doe_loan_and_guarantee_portfolio.pdf