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Lamar Smith, Chairman

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Statement of Energy Subcommittee Chairman Randy Weber (R-Texas)
Department of Energy Oversight: DOE Loan Program

Chairman Weber: Good morning and welcome to today's joint Energy and Oversight Subcommittee hearing. Today, we will hear from the Department and a number of expert witnesses on the Department of Energy's loan program, and will examine the market impact and risk associated with federal loan guarantees for energy innovation.

The DOE loan guarantee program was established in 2005, and was designed to use loan guarantees to advance commercial application of innovative clean energy technology. Through the Section 1703 program, the Department "guarantees" a private loan given to an energy company. To guarantee a loan, DOE tells private investors that if the company defaults, the taxpayers will foot the bill for the loan.
Instead of the private sector taking on risk to fund scale up of new technology, the government steps in, risking federal dollars on the hopes for success of energy projects. DOE also provides direct loans to large automobile companies through the Advanced Technology Vehicle Manufacturing (or ATVM) program.

As a part of the stimulus in 2009, Congress temporarily expanded the loan guarantee program, and gave DOE another 2.4 billion dollars to subsidize the costs of loan guarantees. In these subsidized loans, known as Section 1705 loans, companies not only received government backing for their loan, but additional taxpayer dollars to pay the "credit subsidy cost" of the loan, or the estimated cost to the federal government over the lifetime of the loan. With political pressure to issue loans before the temporary subsidy program expired, DOE rushed loan applications, issuing $16 billion in loans to 26 projects.

But both the DOE Inspector General and GAO found that DOE did not have the necessary expertise or metrics to effectively evaluate these loans. What's worse, loan guarantees for President Obama's political allies were often fast-tracked, with little consideration for project merit or benefits to the taxpayer.

Companies that received Section 1705 loans had no skin in the game and weren't carefully considered – and we're all familiar with the results. With high profile defaults – like the $535 million loan guarantee provided to Solyndra in 2011, $68 million lost when Abound Solar filed for bankruptcy in 2012, and $139 million lost from a direct loan to Fisker Automotive – the Department has lost over $800 million on bad loans.
According to GAO estimates, the total cost for the current loan portfolio is $2.2 billion, plus $312 million in program administrative costs. These costs will increase if another loan defaults, or the Department issues more loan guarantees to projects with any financial risk.

And unlike a private lender, there is no benefit for the taxpayer if the guaranteed loan is paid in full. Regular Americans take on the liability of the full loan, they don't see a return – even if the project is successful and the loan is paid back. American tax dollars subsidize loans for large companies with billions in available capital like Ford, Goldman Sachs, Google, GE, and Berkshire Hathaway. DOE loans and loan guarantees have been overwhelmingly awarded to subsidiaries of large companies, or companies with high profile private investors who jump at the chance for government security.

But if something goes wrong, these big companies aren't stuck with the bill – the America people are. While supporters of the loan guarantee program often cite the low percentage of default loans, the numbers don't tell the whole story.

First, the DOE loan program is a prime example of the government trying to do something the private sector does better. GAO has consistently criticized DOE for lacking the appropriate expertise, both technical and financial, to evaluate and monitor loans. Private sector investment firms have this expertise, and make investment decisions based on profit, not political favors. It's no surprised that mistakes are made when rushing loans without proper scrutiny is the main priority. And political pressure to issue loan guarantees will only increase as the Obama administration comes to a close.

Second, loan guarantees are only one piece of the billions of taxpayer dollars President Obama has spent on his clean energy agenda. A quick look at the loan portfolio reveals companies that benefited from countless subsidies, tax credits, and cash grants from other government programs, not to mention federal and state mandates that push utilities to enter into power purchase agreements for higher cost energy from unreliable renewable power. In the case of SolarReserve's Crescent Dunes project in Nevada, a concentrating solar power project that received a $737 million loan guarantee, Nevadans will pay 66% more per kilowatt hour for electricity produced by the plant. So the loan program risks American's tax dollars, and then rewards them with more expensive utility bills when the project is complete. Finally, federal meddling in the energy market crowds out investment for innovative technologies that don't receive loan guarantees.

By subsidizing loans to favored technologies, DOE has driven private investors to choose projects based on loan security, not market success or innovation. Why would a private investor take a risk on an innovative technology when they can invest in a project backed by the government? The federal government should get out of the way, focus our limited resources on research and development, and let the market drive investment for energy innovation.

I want to thank Mr. McCall and all our witnesses for testifying to the Committee today, and I look forward to a review of DOE's loan portfolio. As some of our witnesses will point out today, the DOE loan programs are just one more way the Obama Administration is picking winners and losers in the energy market. We can't afford to risk American tax dollars or increase costs for the American people to play favorites.

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