

The role of the US DoE in liquid markets

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The US Department of Energy (DoE) this week announced a new initiative to facilitate renewables investment – the Clean Energy Impact Investment Center. The DoE says that the programme has already lined up \$4 billion in committed investment, with pension funds among the contributors, and would serve as an intermediary between potential investors and renewables project developers.

The programme is launching despite the fact that credit markets are in rude health. “Any project with a shot at realisation finds the money and the money finds them,” says a New York-based financial adviser to sponsors. “A government intermediary is likely not needed.”

This is true for renewables generation projects that enjoy at least some revenue certainty, and that use established technologies. Bank, bond and leveraged loan appetite has outstripped the volumes that developers have brought to market for almost three years.

Technology risk

But projects that use new, or commercially unproven, technologies continue to struggle to raise debt in the project finance market. Most international banks refuse to assume technology risk, and institutional investors are still warming to risks that project finance banks will accept, including construction risk.

The DoE has long been keen to support projects that feature technology risk, using a mixture of grants and loan guarantees to make them acceptable to investors.

Its Section 1703 loan programme launched during the administration of George W. Bush, and was designed to promote innovative renewable technologies. But the department failed to close a single guarantee under 1703 until 2014 – long after Barack Obama became president.

The Section 1705 programme, which fell under the 2009 American Recovery and Reinvestment Act, led to loan guarantees for 24 renewables projects in 2010 and 2011. But while the programme peaked when bank liquidity was depressed, most beneficiaries used technologies with some commercial history. The 1705 programme ended in late September 2011.

Critics of 1705 seized on the collapse of Solyndra, a California solar manufacturer, which received a \$535 million loan guarantee – the first under the programme – and a loan from the US Federal Financing Bank. Supporters of 1705 say that the programme may (eventually) make the federal government \$5 billion in profit, and help to mainstream some renewables technologies, particularly solar photovoltaic.

The DoE notes that just two of the loan programmes office’s guarantees – whether under the 1703, 1705 or the Advanced Technology Vehicles Manufacturing (ATVM) initiatives – have defaulted, or 2% of the office’s portfolio.

DoE programmes

The DoE says that the Clean Energy Impact Investment Center will provide technical assistance and help centralise information on developers and early-stage projects.

The agency has offered little explanation beyond that and the \$4 billion headline figure.

“Are all developers given a list of investors who are participating?” asks the New York-based financial adviser. “Can you imagine the calls all the pension funds would get? Is the government going to vet projects and then provide investor names?”

Developers are accustomed to viewing the DoE’s efforts with scepticism. The vetting process for 1703, as with 1705, is laborious. And just one loan guarantee has closed under the 1703 programme, for the expansion of the Vogtle nuclear site in Georgia.

The loan programmes office has multiple solicitations open, and is understood to be considering 15 projects under its \$4 billion innovative renewables solicitation. Its definition of innovative is elastic. Offshore wind, for example, has been the subject of several project financings in

Europe, but just one such project has closed in the US, which makes the sector eligible for 1703 today.

But the first offshore wind project in the US – the [30MW Block Island farm](#) off the coast of Rhode Island, which closed in February 2015 – used commercial bank debt rather than a loan guarantee from the DoE. It turned to commercial banks instead of pursuing attractive debt from the federal government – typically 20-year loans priced at 50-100bp over US Treasuries.

Project finance lawyers would prefer that DoE programmes, including 1703 and the Clean Energy Impact Investment Center, focus on technologies, including battery technologies, that struggle to close bank debt or bonds. “The best use is to cover technology risk that can’t be financed in the private sector,” says a renewables lawyer in Washington, DC, who closely follows federal policy.

Peter Davidson, the [outgoing executive director](#) of the loan programmes office, agreed that the office should fill financing gaps. “If projects can go to senior lenders and get financing, then they shouldn’t come to us,” Davidson told *IJGlobal* in 2014. “They shouldn’t come to us for cheaper terms.”

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