Alternative Fuels & Chemicals Coalition

Advocating for Public Policies to Promote the Development & Production of Alternative Fuels, Renewable Chemicals, Biobased Products, and Sustainable Aviation Fuels

AFCC's FY2025 Appropriation Request - E&W #1

Establishment of a Capital Development Grant Program to Accelerate the Deployment of Projects That Will Create Jobs, Drive Economic Growth, and Mitigate The Impacts of Climate Change

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Appropriations Subcommittee:

Energy and Water Development

E&W Priority: #1

Federal Agency:

Department of Energy

Agency Account:

Title 17 Innovative Technology Loan Guarantee Program

Program Title:

Development Capital Grant Program **(a self-sustaining, revenue-generating program)** consistent with the way in which the Title 17 costs currently are appropriated. The new language will be added immediately before the first *Provided* per the Consolidated Appropriations Act of FY2023 (P.L. 117-328) pages 177-179.

Program Description:

See the program description, rationale, proposed legislative language, and additional background that follow.

Amount Requested by AFCC:

$500,000,000

- using interest earned by the U.S. Treasury from Title 17 loan repayments
- to accelerate projects that will qualify for Title 17 loan guarantees, thus
- increasing the number of Title 17 loan guarantees and, consequently, the number of loan repayments and amount of interest earned by the U.S. Treasury
- with the grant program becoming, within a few years, self-sustaining
- replacing the interest used to establish the grant program, and generating ever increasing interest earnings for the U.S. Treasury

Program Description / Rationale – E&W #1

PURPOSE

The purpose of this request is to address an unmet need that hampers the Nation's ability to expand its global competitiveness, increase opportunities to provide high paying jobs, grow the economies and tax revenues for local communities, and address climate change.

This request will be funded in the same way in which each year's appropriations provide administrative expenses for the Title 17 loan guarantee and the Advanced Technologies Vehicle Manufacturing (ATVM) loan programs … thus following an established precedent … by drawing on repayments to the general fund from the Title 17 and ATVM obligations, which subsequently are offset by the payments derived from their operations that are collected by the general fund so that the net appropriation is $0.

This request will, in fact, do much better than that: see "*The Development Capital Grant Program Will Become Self-Sustaining … and Generate Additional Revenues for the U.S. Treasury*" below.

The intent of this request is to make greater use of the funds generated for the U.S. Treasury from Department of Energy (DOE), Loan Programs Office (LPO) Title 17 Innovative Technologies/Clean Energy Financing loan guarantee repayments. According to the LPO's 2022 Annual Portfolio Status Report:

- **The Title 17 repayments in FY2022 amounted to $1.7 billion in principal retirement.**
- **<u>These FY2022 repayments generated $523 million in interest</u>.**
- **Since the issuance of its first loan guarantee obligations in 2009, <u>the Title 17 repayments have totaled $13.7 billion (43% of the total funds distributed)</u>, and <u>generated $4.3 billion in interest payments to the U.S. Treasury</u>.**

TITLE 17'S HISTORY OF RISKS & FAILURES

The Title 17 program was established by Congress through the Energy Policy Act of 2005. It has been characterized as a "bridge over the valley of death" and as a "bridge to bankability."

This is because it was created specifically to assume the risks of first-of-their-kind projects, which have a high failure rate, which private sector lenders are unwilling to undertake.

The Title 17 program has, in undertaking the risks inherent in first-of-their-kind projects, experienced failures and losses. It has been roundly criticized for this (even though it was established to take on risks … and, therefore, experience losses … so that projects that can advance in no other can way provide their benefits to the Nation).

Because of its comprehensive due diligence, the LPO has greatly limited these losses:

- By the end of FY2022, the Title 17 program had $35.16 billion in outstanding loans.
- Its write offs and losses, beginning with its first project deployments in 2019, amount to $1.035.

- This represents 3% of the Title 17 total disbursements
- **Significantly, these losses represent <u>less than one-quarter</u> of the interest payments generated by the Title 17 program and earned the U.S. Treasury.**

As the LPO states in its FY2022 annual report, **"The central challenge the United States faces in reaching its climate goals is a deployment challenge—not an invention challenge."** The Title 17 program is meeting this challenge while, at the same time, being a net revenue generator for the U.S. Treasury.

The Development Capital Grant Program Will Become Self-Sustaining … and Generate Additional Revenues for the U.S. Treasury

The Development Capital grant program will address this deployment challenge. It will award grants on a competitive, 50/50 matching basis. Projects that receive awards will have the potential, in the estimation of the LPO, to qualify for the Title 17 loan guarantee program upon completion of their Technology Readiness Level (TRL) development and pre-construction steps.

<u>Rationale</u>: The Development Capital grant program will:

- Provide greater certainty to companies seeking to advance innovations.
- Allow companies to complete their TRL development and pre-construction steps, advancing to the stage where they can meet the Title 17 application requirements.
- Ensure that a greater number of projects can follow a bridge to bankability … across the "valley of death," between the validation of a significantly improved, first-of-its-kind technology and its readiness to apply to the Title 17 program to finance construction and first commercial deployment.
- Be viewed favorably by private sector investors.

AFCC proposes that the funds for the Development Capital grant program be drawn from the interest payments generated by the repayments of the Title 17 obligations.

<u>Rationale:</u> These funds will be used to accelerate the development of projects that can qualify for the Title 17 program. This will:

- *increase* the number of projects that receive financing through Title 17
- *increase* the number of innovative projects that are deployed
- *increase* the number of jobs that are created
- *increase* economic growth and tax revenues in local communities
- *increase* the Nation's global competitiveness
- *increase* the Nation's ability to address climate change
- *increase* the number of Title 17 repayments to the U.S. Treasury

and

- *increase* the amount of interest generated for the U.S. Treasury by these repayments

According to the LPO's FY2022 annual report, there were 15 active projects as of September 30, 2022, representing $36.3 billion in loan and loan guarantee commitments, with eight previous loans repaid in full, and interest earnings for the U.S. Treasury of $523 million.

For purposes of comparison: at of the end of January 2024, the LPO had 205 active applications with $263.1 billion in loans requested.

- If half of these project are deployed within the next two years (FY2026), they would add $131.5 billion in loan obligations, for a total of $167.8 billion in repayments to the U.S. Treasury
- The interest earned by the U.S. Treasury on these loan obligations would amount to $2.42 billion in FY2027.
- Thus, the U.S. Treasury would be able to:
  - ✓ recover the funds that are used to establish and fund the Development Capital grant program in FY2025-26 ($1 billion)
  - ✓ increase funding for the Development Capital grant program to $1 billion in FY2027
  - ✓ earn $420 million in interest in FY2027, and
  - ✓ provide $1 billion for the Development Capital grant program while earning $1.4 billion in interest in FY2028

Thus, in as little as three years, the establishment, continuation, and expansion of the Development Grant program, combined with the number of projects being funded by Title 17, could triple the amount of interest earned by the U.S. Treasury.

Proposed Legislative Language – E&W #1

Creation of a Development Capital Grant Program

AFCC's Proposed Amendment reads as follows, with blue text indicating the ~~strikeouts~~ and additions, with AFCC's proposed language added immediately before the first *Provided,* in the language contained in the Consolidated Appropriations Act of FY2023, pages 177-179.

TITLE 17 INNOVATIVE TECHNOLOGY LOAN GUARANTEE PROGRAM

Such sums as are derived from amounts and interest received from borrowers pursuant to section 1702(b) of the Energy Policy Act of 2005 under this heading in prior Acts, shall be collected in accordance with section 502(7) of the Congressional Budget Act of 1974: *Provided,* That of said sums, $500,000,000 is appropriated, to remain available until September 30, 2026, which shall be used to provide development capital grants, through a competitive process, to projects that have the potential, in the estimation of the Department of Energy, to qualify for the Title 17 loan guarantee program upon completion of their final technology readiness level development and pre-construction steps, with said grants awarded on a competitive 50/50 matching basis to selected projects to advance to the stage where they can apply under the Title 17 loan guarantee program to stimulate (1) an increase in the number of significantly improved and first-of-their-kind technologies that can be commercially deployed, (2) an increase in the sums received from borrowers, and (3) an increase in the interest collected by the general fund on said sums, so that the cost of the development capital grant program is offset by the additional collections by the general fund *Provided further,* That should the Department of Energy require additional funds for administrative expenses associated with third-party consultants engaged by the Secretary beyond those appropriated in this Act and in Section 50141(c) of the Inflation Reduction Act of 2022 (Public Law 117-169), the Department of Energy may use up to $250,000,000 from the above appropriation for such costs, with said costs reimbursed to the Secretary on or after the date of financial close by being deducted from the amount of the loan obligation: *Provided further,* That the amounts used for administrative expenses shall not exceed the amounts made available by the Secretary for development capital grants: *Provided further,* That of said sums, for Department of Energy administrative expenses necessary in carrying out the Title 17 Innovative Technology Loan Guarantee Program, as authorized, an additional ~~$66,206,000~~ $70,000,000 is appropriated, to remain available until September 30, 2025: *Provided further,* That up to $570,000,000 collected in fiscal year 2025 pursuant to section 1702(h) of the Energy Policy Act of 2005 shall be credited as offsetting collections under this heading and used to award development capital grants to selected projects and for necessary administrative expenses in this appropriation and shall remain available until September 30, 2026: *Provided further,* That the sum herein appropriated from the general fund shall be reduced (1) as such fees and interest on borrower payments are received during fiscal year 2025 (estimated at ~~$35,000,000~~ $600,000,000 for fiscal year 2025 and increasing each year thereafter) and (2) to the extent that any remaining general fund appropriations can be derived from interest payments and fees collected in previous fiscal years that are not otherwise appropriated, so as to result in a final fiscal year 2024 appropriation from the general fund estimated at $0: *Provided further*, That the Department of Energy shall not subordinate any loan obligation to other financing in violation of section 1702 of the Energy Policy Act of 2005 or subordinate any Guaranteed Obligation to any loan or other debt obligations in violation of section 609.8 of title 10, Code of Federal Regulations. ~~Of the unobligated balances from amounts made available in the first proviso of section 1425 of the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (Public Law 112–10) for the cost of loan guarantees under section 1703 of the Energy Policy Act of 2005, $150,000,000 are hereby permanently rescinded:~~ *Provided further,* That, subject to section 502 of the Congressional Budget Act of 1974, commitments to guarantee loans for eligible projects under title 17 of the Energy Policy Act of 2005, shall not exceed a total principal amount of $15,000,000,000 for any single project, to remain available until committed: *Provided further,* That the amounts provided under this paragraph are in addition to those provided in any other Act: *Provided further,* That for amounts collected pursuant to section 1702(b)(2) of the Energy Policy Act of 2005, the source of such payment received from borrowers may not be a loan or other debt obligation that is guaranteed by the Federal Government: *Provided further,* That none of such loan guarantee authority made available under this paragraph shall be available for commitments to guarantee loans for any projects where funds, personnel, or property (tangible or intangible) of any Federal agency, instrumentality, personnel, or affiliated entity are expected be used (directly or indirectly) through acquisitions, contracts, demonstrations, exchanges, grants, incentives, leases, procurements, sales, other transaction authority, or other arrangements, to support the project or to obtain goods or services from the project: *Provided further,* That the preceding proviso shall not be interpreted as precluding the use of the loan guarantee authority provided under this paragraph for commitments to guarantee loans for: (1) projects as a result of such projects benefitting from otherwise allowable Federal income tax benefits; (2) projects as a result of such projects benefitting from being located on Federal land pursuant to a lease or right-of-way agreement for which all consideration for all uses is: (A) paid exclusively in cash; (B) deposited in the Treasury as offsetting receipts; and (C) equal to the fair market value as determined by the head of the relevant Federal agency; (3) projects as a result of such projects benefitting from Federal insurance programs, including under section 170 of the Atomic Energy Act of 1954 (42 U.S.C. 2210; commonly known as the ''Price-Anderson Act''); or (4) electric generation projects using transmission facilities owned or operated by a Federal Power Marketing Administration or the Tennessee Valley Authority that have been authorized, approved, and financed independent of the project receiving the guarantee: *Provided further,* That none of the loan guarantee authority made available under this paragraph shall be available for any project unless the Director of the Office of Management and Budget has certified in advance in writing, within thirty (30) days of receiving a request by the Department of Energy for said certification, that the loan guarantee and the project comply with the provisions under this paragraph.

Additional Background – E&W #1

Why This Grant Program is Important

Every project being developed – *every one that is needed to mitigate the climate crisis* – only can advance with infusions, sometimes large infusions, of development capital.

For example, a typical $1 billion biomass-to-sustainable-aviation-fuel (SAF) project may require $50 million or more in development capital to move the project through permitting and Front-End Engineering and Design (FEED) to a final investment decision (FID).

Without this development capital, a project can't move forward. The difficulty in securing development capital can result in years-long, and sometimes decade-long delays in a project's timeline and deployment.

This is the hardest money to raise, which recently has been made even harder because of increasingly tightened credit.

Even under the best economic conditions, it is hard to raise this money because new, first-of-their-kind innovations, no matter how promising they seem, and even existing technologies used in new applications, are viewed by the credit markets as untried and unproven and, therefore, carry considerable risk. They may not work. Money may run out before they can be completed. The payoff which, with high risk, may generate a high return – that is, if ever there is a return – typically is years away.

This is why it often takes 8-10 years, or more, for an innovation to progress through each technology readiness level (TRL) to where it can be deployed.

Some projects never reach the point where they can address the climate crisis – or provide their other benefits to society … which we will never know about or be able to enjoy – because they end up being unrealized dreams due to the lack of the money that was necessary for them to continue.

Current economic conditions have greatly exacerbated the difficulty in securing development capital: Inflation, climate change, the war in Ukraine, supply chain disruptions, and the COVID-19 pandemic, to name a few, have coalesced into what experts have called a "polycrisis."

Although federal grants provide funds for project development, such funding only can be used to meet the restrictions and attain the objectives of the grant, as opposed to advancing the unique needs of the project.

Therefore, development capital, to the degree it is provided, is, at most, an after-thought, a byproduct of a grant.

There is no federal funding that addresses this specific need, let alone that provides development capital that meets the unique needs of each project so it can advance.

This is why AFCC is proposing that a development capital grant program be established within the LPO:

- to meet the specific needs of each project
- to advance disruptive, game-changing projects more quickly and less haphazardly
- to meet the requirements of the Title 17 Clean Energy Financing program
- to be deployed, not in 8 or 10 years, but in 4 or 5 (or fewer) years
- and, thus, provide their benefits to the American people
  - ✓ creating jobs
  - ✓ providing economic stimulus to local communities
  - ✓ generating tax revenues
  - ✓ advancing the Nation's competitiveness

  and
  - ✓ addressing the climate crisis.