

GUEST COMMENTARY

US loan guarantee programme opens the door to new CO₂-reducing technologies

By Mary Anne Sullivan, Hogan & Hartson, LLP

Whatever disagreements exist about other aspects of the US response to climate change, everyone agrees that new, carbon-reducing technologies are required. The Energy Policy Act of 2005 gave the US Department of Energy (DOE) new authority to grant loan guarantees to advanced energy technologies that avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases (GHGs).

The Bush administration did not ask for this authority, but has now embraced it as a key tool in the arsenal to combat climate change, and the availability of loan guarantees has made many in the US power generation industry more ready to accept carbon mandates.

“The availability of loan guarantees has made many in the US power generation industry more ready to accept carbon mandates

Indeed, in its comments on DOE's loan guarantee rule, Constellation Energy described loan guarantees as “indispensable” to creating “a path to a low carbon future,” an idea that was echoed in different ways by other power generators, would-be coal gasification and cellulosic ethanol project developers and state utility commissions.

Both utility regulators and Wall Street bankers are generally reluctant to take the risk associated

with first-of-a-kind technologies for large energy installations. Power generators seeking to build new nuclear and integrated gasification combined cycle coal plants see the loan guarantees as critical to their ability to overcome this reluctance and bring these CO₂-reducing technologies to market.

Advanced biofuels developers, energy efficiency technology manufacturers, and even Tesla, the electric vehicle manufacturer that promises 0-60 mph in 4 seconds with a small fraction of the CO₂ emissions of conventional vehicles, are also among the many who see the loan guarantee programme as central to their commercialisation strategies.

The programme had been sidetracked by congressional in-fighting and extreme caution towards a policy tool that DOE used with little success and some noteworthy failures in the past. However, DOE recently issued its final rules governing the loan guarantee programme and announced the selection of 16 applicants to proceed with loan guarantee negotiations from the 143 pre-applications it received in 2006.

For the most part, the rules favourably resolved critical issues about the structuring of guaranteed loans. Now, the key questions that remain about how effective the programme will be in delivering lower GHG emissions are whether DOE will have adequate levels of guarantee authority and whether the risk-

based cost of the guarantees will exceed project developers' ability to pay.

“More money will be required if loan guarantees are to put a dent in carbon emissions

In 2006, Congress gave DOE \$2 billion in loan guarantee authority for the programme. In 2007, that amount doubled, and for 2008, DOE has sought \$9 billion. But significantly larger amounts will be required in future years if loan guarantees are to bring transformational energy technologies to market in sufficient number to put a dent in carbon emissions.

The other large unknown is what a guarantee will cost the applicant, the so-called Credit Subsidy Cost, which is a function of the risk and associated cost to the government of default. Given the uncertainty about how the cost will be estimated and the potential that it could be prohibitive, the Credit Subsidy Cost calculation methodology may be the most significant threat to the ability of the loan guarantee programme to bring new, low-GHG technologies to market since the programme by definition is available only to unproven technologies.

Point Carbon is happy to consider your proposals for commentaries in Carbon Market North America
Please submit ideas to pcnews@pointcarbon.com