



Union of Concerned Scientists

Citizens and Scientists for Environmental Solutions

The Clean Energy Deployment Administration (CEDA)

The American Clean Energy Leadership Act of 2009 (S.1462) that passed out of the Senate Energy and Natural Resources Committee in June creates a new federal financing entity called the **Clean Energy Deployment Administration (CEDA)**. This new agency would promote the domestic development and deployment of clean energy technologies by establishing a self-sustaining fund that would help private capital markets provide affordable financing for a range of energy-related technologies. As passed by the Senate, **the fund's proposed structure raises a number of serious concerns that must be addressed** before Congress moves forward.

The bill would exempt CEDA from advanced congressional appropriations, which would allow the fund to provide potentially unlimited loan guarantees to entities that are able to pay their subsidy costs up front. CEDA also lacks any restrictions on the amount of financial support that can go to any one technology, including the most costly, most risky, and least sustainable energy technologies like coal to liquids, coal with carbon capture and storage, and nuclear power. Finally, the fund lacks criteria that would require the fund to target financial support to technologies that can reduce the most greenhouse gas emissions per dollar invested. All of these problems will result in increased risk of default to the U.S. taxpayer and could adversely impact the competitiveness of renewable resources vis-à-vis less economic and environmentally acceptable alternatives.

Most significantly, the Senate bill places **no effective limits on the amount of loan guarantees that can be issued to eligible technologies that can raise capital for collateral. Because CEDA would be exempt from** the Federal Credit Reform Act (FCRA), it could use the full faith and credit of the U.S. government to issue loan guarantees without going through the normal appropriations process. This would **eliminate a critical tool of government oversight and could** leave taxpayers on the hook for billions of dollars in risky loans. CBO estimates that under the Senate proposal, DOE could hand out more than \$130 billion for nuclear and fossil energy projects. CBO's calculation is based solely on pending DOE loan guarantee applications; it does not attempt to estimate the hundreds of billions of dollars in additional loan guarantees that could be approved by the new bank and backed by Treasury if this program becomes law.¹

Although Senate bill would require that the subsidy cost (i.e, the estimated default risk) of the loan must be paid up front in order to get a loan guarantee, there is no certainty that the risk exposure to the taxpayer will be accurately calculated and reflected in the subsidy cost because the process for making that determination is not transparent and is poorly understood. Both the Government Accountability Office (GAO) and the Congressional Budget Office (CBO) have concluded that calculating these costs is difficult.² Moreover, the Senate bill would allow a combination of both the

¹ CBO report at: <http://www.cbo.gov/doc.cfm?index=10637>.

² GAO report at <http://www.gao.gov/new.items/d07339r.pdf>.



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borrower and the taxpayers to pay any subsidy cost, meaning that U.S. taxpayers could have even more to lose if and when projects default. CBO notes that subsidy costs are likely to be underestimated, which will provide additional incentives for the industry to self-pay its subsidy costs in order to access loan guarantees.

The Senate bill contains no requirements ensuring that a diversity of projects would receive loan guarantees. Eligible projects include non-renewable technologies like **coal-to-liquids, carbon capture and storage, and nuclear power**. These technologies are all highly capital intensive, which could enable them to **get the majority of available credit support** through CEDA. The lack of a cap on the amount of financial assistance that could be provided to any one technology would increase the likelihood that CEDA's project portfolio will be disproportionately weighted in favor of capital intensive, non-renewable technologies at the expense of less costly, cleaner and more scalable ones.

Finally, the Senate bill lacks a greenhouse gas metric that would ensure that the fund achieves the greatest emissions reductions per dollar invested. With access to potentially unlimited loan guarantees and no cost-effective emissions reduction metric, increased electricity demand could be filled by non-renewable resources, further **eroding the competitive position of renewables resources**.

Without major revisions to restore meaningful Congressional oversight and establish clear limits on both its size and the volume of loan guarantees that can go to any single technology, the fund could set the stage for the next bubble and subsequent financial crisis. Given the capital-intensive nature of many of the technologies eligible for these loan guarantees, as well as their limited or poor credit history, it would be fiscally irresponsible for Congress not to establish such limits. A "clean energy bank" **must have a defined cap on the total amount of loan guarantees it can issue and be subject to congressional oversight** so that taxpayers are not exposed to unnecessary and potentially unlimited financial risk. **CEDA must also have a cap on the amount of financial assistance that can go to any one technology** so that a small number of large, capital-intensive projects do not crowd out assistance for renewable and energy efficiency technologies. Finally, **CEDA must contain a greenhouse gas metric** to establish funding priorities based on the amount of carbon reduced per dollar invested in the shortest amount of time. These critical provisions will ensure that energy technologies that have the greatest impact on reducing greenhouse gas emissions, are the most cost-effective, and put people back to work the fastest will receive the financial assistance that CEDA is intended to provide.

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CBO report at <http://www.cbo.gov/ftpdocs/82xx/doc8206/s1321.pdf>.