Statement of
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Introduction

Chairman Bingaman, Ranking Member Murkowski, and members of the Committee, thank you for the opportunity to testify today. My name is Jonathan Silver, and I am the Executive Director of the Department of Energy's (DOE) Loan Programs Office (LPO). DOE's loan programs provide critical support for the nation's commercial deployment of clean energy technologies, and the jobs and economic growth that come with them. I welcome the opportunity to discuss the Advanced Technology Vehicles Manufacturing (ATVM) Loan Program with you and to highlight our significant accomplishments.

Background of the ATVM Loan Program

As you know, the Loan Programs Office administers three separate programs: the ATVM Loan Program and the Title XVII Section 1703 and Section 1705 loan guarantee programs. The ATVM Loan Program was established by Section 136 of the Energy Independence and Security Act of 2007, and provides direct loans to support the manufacturing of advanced technology vehicles and qualifying components in the United States. As noted by GAO in their most recent report, although the authorizing statute does not specifically identify goals for the Program, ATVM Program staff have established clear goals and performance metrics to measure the program's success. In achieving these goals, the Program helps create next-generation jobs in the automotive and component manufacturing industries.

The Program provides loans to automobile and automobile parts manufacturers for the cost of reequipping, expanding, or establishing manufacturing facilities in the United States to produce advanced technology vehicles or qualified components, and for associated engineering integration costs. In 2010, Section 136 was amended to include ultra-efficient vehicles within the definition of advanced technology vehicles.

The FY 2009 Continuing Resolution (CR), which was enacted on September 30, 2008, appropriated $7.5 billion in credit subsidy to support up to $25 billion in loans under the

ATVM Loan program. The FY 2009 CR also provided DOE with $10 million to administer the Program. On November 5, 2008, DOE issued the Interim Final Rule for the Program. DOE accomplished this effort in approximately half of the 60-day timeframe mandated by Congress. The program began receiving applications on December 2, 2008.

The ATVM Program has received numerous applications from both automobile original equipment manufacturers (OEMs) and component manufacturers.

Value of ATVM Loan Program

ATVM funding has played a critical role in the development of plug-in hybrid and electric vehicles by providing long-term capital when private financing was not available. It is important to remember that the ATVM Loan Program is not a grant program; loans must be repaid. We review projects on a competitive basis, and we do not fund every eligible project. We ensure that the loans we support meet our statutory requirement of having a reasonable prospect of repayment. Every project that receives financing must first go through a rigorous financial, legal and technical review process – similar to, and in some ways more comprehensive than, what a private sector lender would conduct – before a single dollar of taxpayer money is put to work.

Moreover, the programs can efficiently and effectively leverage government resources to spur private-sector investment. The financing provided by the loan programs is "additive." It is intended to finance projects that – because they would have difficulty accessing conventional debt markets – might otherwise not get built. A relatively small amount of appropriated credit subsidy can support large amounts of new private sector investment. When a loan is fully repaid, the nation will have benefited from the incentivized private sector investment at relatively little cost to taxpayers.

The potential benefits of the Program are great. In addition to improvements in fuel economy, ATVM Loan Program projects promote economic growth and job creation. They create construction and permanent operating jobs in manufacturing communities where job growth has long been stagnant. In addition, these projects contribute to the build-out of the domestic supply chain and manufacturing base that we will need to "win" the clean energy future.

To date, DOE has issued five ATVM loans totaling $8.3 billion. These funds will support advanced vehicle projects in nine states and the companies supported estimate these projects will preserve or create almost 38,000 manufacturing or permanent jobs. The Program also provides substantial support to the US automotive supply chain. According to information received from the companies, more than 65 percent of the parts for Fisker's Karma vehicle are expected to come from US manufacturers, and the VPG facility alone is estimated to support approximately 800 sales, service, parts and supplier professionals. In an economic downturn that threatened the entire domestic auto industry, the Program helped re-establish US leadership across multiple automotive technologies including plug-in, high-efficiency gasoline, and natural gas vehicles.

ATVM loans support three of the world's first electric car factories in Delaware, Tennessee and California, as well as the only factory-built light-duty vehicle to date that meets or exceeds accessibility guidelines of the Americans with Disabilities Act. In total, our projects will save approximately 282 million gallons of gasoline annually – roughly the same as removing 545,000 passenger vehicles from the roads.

S.1000 and S.1001

The Administration is continuing to review these bills and does not have a position on them at this time. My comments will be limited to Section 202 of S.1000 and Sections 101 and 102 of S.1001 as they address issues that would fall under the Loan Program Office at the Department of Energy.

S.1000 would expand Title XVII to finance energy efficiency upgrades to existing buildings. The new program would target certain building types, including commercial, industrial, municipal, university, school, and hospital facilities. The President's 2012 budget requests $100 million for loan guarantee subsidy costs to support up to $2 billion in loan guarantees for energy efficiency retrofits of universities, schools, and hospitals. However, as noted above the Administration is continuing to review the specifics of this bill.

S.1001 would add two new categories of vehicles to those now eligible for a loan under the ATVM Program. Vehicles currently eligible for ATVM loans include certain light duty and ultra-efficient vehicles. The proposed bill would add medium and heavy-duty trucks, bus and rail vehicles, as well as alternative fuel vehicles. These vehicles would need to satisfy certain loan eligibility requirements set out in the proposed bill, including reducing the consumption of conventional motor fuel. The proposed bill would also expand the scope of components that are eligible for a loan under the ATVM program.

The bill would also amend the Title XVII loan guarantee program to include, as part of the 1703 program's mandate, the reduction of oil imports through alternative fuel projects. It would also make projects that produce and distribute alternative fuel and advanced biofuels eligible for 1703 loan guarantees.

Addressing the GAO Findings

As you are aware, the US Government Accountability Office (GAO) completed its audit of the ATVM Loan Program in February of this year. The stated objectives of the audit were to (1) identify the steps DOE has taken to implement the ATVM loan program, (2) examine the ATVM program's progress in awarding loans, (3) assess how the program is overseeing the loans, and (4) evaluate the extent to which DOE can assess its progress toward meeting program goals. The auditors made only two recommendations: (i) that the Program accelerate its efforts to engage the engineering expertise needed for effective technical oversight of loan recipients, and (ii) that the Program develop sufficient, quantifiable performance measures for its three program goals.

The GAO report noted that DOE had taken numerous steps to successfully implement the ATVM Program. In addition to setting out Program goals for increasing U.S. fuel economy as a whole, advancing U.S. automotive technology, and protecting taxpayers' financial interests, the Program also established rigorous technical, financial, and environmental eligibility requirements for applicants.

The GAO also acknowledged that the Program has successfully set procedures for overseeing the financial and technical performance of borrowers, but asserted that it did not engage engineering expertise in a timely matter for certain projects that need additional technical oversight. First, because of their technical expertise, the Program leverages staff in DOE's Office of Energy Efficiency and Renewable Energy (EERE) to determine whether applicants and proposed projects meet the Program's technical eligibility criteria. EERE performs most of the technical eligibility analysis for the ATVM Loan Program, and uses a model from the Argonne National Laboratory to analyze certain applicant-provided technical data. Second, as we related in our response to the GAO report, the ATVM Loan Program – consistent with its procedures – has regularly engaged both internal and external expertise to help oversee borrowers' compliance with the loans' technical requirements. In addition to experienced engineers on staff, we have – contracted with the country's leading independent engineering firms to ensure that the projects are being delivered as agreed. These large, private sector firms have decades of experience in monitoring and overseeing complex vehicle and technology projects – and thousands of specialized experts.

We also disagree with GAO's recommendations on the appropriate phase to begin close technical scrutiny of certain large projects. GAO suggested, for example, a detailed review of the engineering integration stage, which is typically software-based design, scheduling, and logistics. A formal engineering assessment at this very preliminary stage would increase transaction costs but would not yield insights that would increase effectiveness of the ATVM program.

For every project supported by ATVM loans, DOE utilizes engineering expertise on a regular basis during vehicle assembly and component manufacturing facility construction. Given the wide variation in ATVM projects, however, it is neither possible nor prudent to subject them all to an identical engineering review. The Program tailors the review for each project to deploy engineering expertise when and where it is most needed in order to achieve the highest confidence in the quality of the project and its ability to repay the loan.

Additionally, the Loan Program's Portfolio Management Division continuously monitors both a borrower's adherence to the technical specifications in its approved business plan, and its financial performance relative to the terms and conditions of the loan agreement. Program engineers attend quarterly progress meetings with the borrowers and participate in on-site inspections of assembly plants and construction sites. Financial covenants are specifically crafted to provide timely warnings to DOE prior to a borrower developing financial issues that may impact the project. This level of attention gives DOE the ability to closely monitor both the technical performance and financial health of each borrower for the life of the loan.

The Department also disagrees with GAO's second stated concern, that the Program has not developed sufficiently robust performance metrics. To support this position, GAO expressed concern that external auditors reported instances in which three of the four borrowers did not spend funds as required. The Program has been successful in verifying that loan funds are spent by the borrowers as intended by the ATVM Loan Program. As GAO reported, the ATVM program uses external auditors to oversee borrowers' financial performance. Out of $3.5 billion in loan disbursements over fifteen months, DOE's auditors have identified less than $1 million in total funds that were problematic. The largest of the overages, in dollars, represented less than 1/100th of one percent of the relevant loan. Each problem that has been identified was corrected immediately, and procedures were quickly put in place to ensure that the errors did not occur again.

GAO also recommended that the ATVM Loan Program develop quantifiable performance measures for ATVM Program goals. DOE believes that the ATVM Loan Program has established clear performance measures and operated in a manner consistent with its authorizing statute and implementing regulations. DOE believes the analyses suggested by GAO go well beyond the statutory requirement set out under Section 136.

Conclusion

In the past two years, the ATVM loan program has shown great success. We are making a meaningful contribution to our national clean energy goals while creating new and permanent jobs. We will continue to administer all of the DOE loan programs, including the ATVM program, in the most effective and efficient way possible – while appropriately protecting taxpayer funds.

Thank you again for inviting me here today. I look forward to responding to your questions.