GAO

Highlights

Highlights of GAO-16-150T, testimony before the Subcommittees on Energy and Oversight, Committee on Science, Space, and Technology, House of Representatives

Why GAO Did This Study

DOE's Loan Programs Office administers the LGP for certain renewable or innovative energy projects and the ATVM loan program for projects to produce more fuel-efficient vehicles and components. Both programs can expose the government to substantial financial risks if borrowers default. DOE considers these risks in calculating credit subsidy costs. The law requires that the credit subsidy costs of DOE loans and loan guarantees be paid for by appropriations, borrowers, or some combination of both.

This testimony summarizes (1) DOE's progress in addressing GAO's prior recommendations related to the implementation and oversight of its loan programs and (2) GAO's 2015 report on the credit subsidy costs of the DOE loan programs.

This statement is based on a body of work that GAO completed between February 2007 and April 2015. GAO made numerous recommendations in these reports and obtained updates from agency officials. GAO is not making any new recommendations in this testimony.

View GAO-16-150T. For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

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DOE LOAN PROGRAMS

Information on Implementation of GAO Recommendations and Program Costs

What GAO Found

The Department of Energy (DOE) has made efforts to improve the implementation and oversight of its loan programs and, to date, has taken actions to address 15 of 24 of GAO's prior related recommendations. DOE's Loan Guarantee Program (LGP), authorized by Congress in 2005, was designed to encourage certain types of energy projects (e.g., nuclear, solar, and wind generation; solar manufacturing; and energy transmission) by agreeing to reimburse lenders for the guaranteed amount of loans if the borrowers default. DOE's Advanced Technology Vehicles Manufacturing (ATVM) loan program, authorized by Congress in 2007, was designed to encourage the automotive industry to invest in technologies to produce more fuel-efficient vehicles and their components. In 2007, 2008, and 2010—which covered the early stages of the LGP—GAO made 15 recommendations to address numerous concerns where DOE had moved forward with that program before key elements were in place. For example, in its February 2007 report, GAO found that DOE's actions had focused on expediting program implementation—such as soliciting preapplications for loan guarantees—rather than ensuring the department had in place the critical policies, procedures, and mechanisms needed to better ensure the program's success. DOE has implemented 11 of the 15 recommendations. In 2011, 2012, and 2014, as Congress expanded the loan programs, GAO made 9 additional recommendations to address concerns about DOE making loans and disbursing funds without having sufficient engineering expertise, sufficient and quantifiable performance measures for assessing program progress, or a fully developed loan monitoring function, among other things. Although DOE generally agreed with most of the 9 recommendations, to date it has implemented only 4 of them.

In an April 2015 report, GAO found that DOE estimated the credit subsidy costs of the loans and loan guarantees in its portfolio—that is, the total expected net cost to the government over the life of the loans—to be about $2.2 billion as of November 2014, including about $807 million for five loans on which borrowers had defaulted. The estimated $2.2 billion in credit subsidy costs was a decrease from DOE's initial estimates totaling about $4.5 billion. GAO found that changes in credit subsidy cost estimates varied by loan program and the type of technology supported by the loans and loan guarantees, among other factors. Specifically, defaults on loan guarantees for two solar manufacturing projects and one energy storage project were largely responsible for an increase in the credit subsidy cost estimate for the LGP's portfolio from $1.33 billion when the loan guarantees were issued to $1.81 billion as of November 2014. Borrowers also defaulted on two ATVM loans, but the credit subsidy cost estimate for the ATVM loan program's portfolio decreased from $3.16 billion to $404 million as of November 2014, mainly because of a significant improvement in the credit rating of one loan. In DOE's portfolio, 21 of the 30 projects had guaranteed revenue streams provided for under a long-term contract, such as a power purchase agreement, but none of the five defaulted loans supported projects with such a contract. GAO also found that administrative costs of the loan programs totaled about $312 million from fiscal year 2008 through fiscal year 2014; these costs are not included in credit subsidy costs.