Observations on Actions to Implement the New Loan Guarantee Program for Innovative Technologies

In fiscal year 2006, and continuing through October 2006, DOE used about $503,000 from three separate appropriation accounts to fund LGP activities. DOE used these funds for the salaries of three staff detailed to the LGP office and for contracts to support the program. DOE stopped most LGP development activities at the end of October, but according to the deputy general counsel for energy policy, he and others continued to work on the program by, for example, preparing a notice of proposed rulemaking and reviewing pre-applications for completeness. At the time of GAO’s review, DOE officials said they were awaiting appropriations before taking additional implementation steps.

DOE should not have begun implementation of the LGP without a specific appropriation. Nevertheless, DOE did begin implementation, and its approach to the LGP raised serious questions about whether this program and its financial risks would be well managed.

LGP guidelines call for borrowers to be charged fees to cover all program costs, but the program could result in substantial financial costs to the taxpayer if DOE underestimates administrative costs, such as evaluating applications. While DOE must recover these costs, it had not developed a plan to determine how it would do so at the time of GAO’s review. Appropriated funds may be necessary to cover shortfalls. The other type of program cost is the subsidy cost: the estimated net present value of the long-term cost to the federal government of guaranteeing the loans over the entire period that the loans are outstanding, excluding administrative costs. DOE will have to estimate this cost to determine the fees charged borrowers, but it had no policies or procedures for doing so. Estimating this cost could be difficult because the program targets innovative energy technologies, and loan performance could depend heavily on future economic conditions, including energy prices, which are hard to predict accurately. Under federal law, shortfalls in subsidy costs are funded by a permanent indefinite appropriation, not through the annual appropriations process.

GAO recommended key steps that DOE did not take but that would help ensure that the program is well managed. The Revised Continuing Appropriations Resolution for Fiscal Year 2007 directed DOE to implement most of GAO’s recommendations by issuing final regulations before awarding loan guarantees. These regulations are to include (1) programmatic, technical, and financial factors for selecting projects for loan guarantees; (2) policies and procedures for selecting and monitoring lenders and loan performance, and (3) any other policies or information necessary to implement the LGP. DOE was also instructed to complete these regulations within 6 months of the appropriations act.