Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

The Senate Must Fix the Clean Energy Deployment Administration (CEDA)

American Clean Energy Leadership Act of 2009 (ACELA) would create a new federal financing entity called the Clean Energy Deployment Administration (CEDA). This agency would promote the domestic development and deployment of so-called clean energy technologies by establishing a fund that would provide federal backing to private capital markets to provide low-cost financing, including loans, loan guarantees and other forms of credit support for a range of technologies. As drafted, **CEDA could require taxpayers to underwrite hundreds of billions of dollars in risky loans to big business with little Congressional oversight.**

ACELA would exempt CEDA from advanced congressional appropriations, allowing the fund to provide potentially unlimited loan guarantees to entities that are able to pay their estimated subsidy costs up front. Because the methodology for calculating subsidy costs is not transparent and poorly understood, true project costs and risks are likely to be underestimated. ACELA also lacks any requirement that CEDA maintain a balanced portfolio or 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 legislation does not require CEDA to prioritize financial support for technologies that could reduce the most greenhouse gas emissions per dollar invested. These problems will result in increased risk of default to taxpayers and could adversely impact the competitiveness of energy efficiency and renewable resources vis-à-vis less economic and environmentally acceptable alternatives.

To ensure that taxpayers are not exposed to unnecessary and potentially unlimited financial risk, the Senate must revise CEDA to restore meaningful Congressional oversight, ensure accurate calculation of subsidy costs, and provide for clear limits on both the size of the fund and the amount of credit support that can go to any one technology. The capital-intensive nature of many of the technologies eligible for these loan guarantees, as well as their limited or poor credit history, make it imperative for Congress to establish such limits. Failure to do this could create a bubble in emerging energy technologies and set the stage for yet another crisis in financial and energy markets.

CEDA Must Be Subject to the Appropriations Process and Have Clear Limits on the Total Amount of Credit Support it can Issue

Most significantly, ACELA places no effective limits on the total amount of loan guarantees the fund can issue. CEDA would be exempt from the Federal Credit Reform Act (FCRA), allowing it to issue government-backed loan guarantees without going through the normal appropriations process. This would eliminate a critical tool of government oversight and could leave taxpayers liable for tens if not hundreds of billions of dollars in risky loans. CBO estimated that ACELA would allow DOE to hand out more than $130 billion for nuclear and fossil energy projects based solely on pending DOE loan guarantee applications; CBO did not attempt to estimate the billions of dollars in additional loan guarantees that could be approved by the new bank and backed by taxpayers if this program were to become law.[i] CEDA 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 Ensure Accurate and Transparent Calculation of Subsidy Costs

CEDA requires borrowers to pay the subsidy cost (i.e., the estimated default risk) of the loan up front in order to get a loan guarantee, but there is no certainty that the risk to taxpayers will be accurately calculated and charged to borrowers because the process for calculating subsidy costs is neither transparent nor well understood. Under ACELA, the borrower, the government, or a combination of both would be able to pay the subsidy cost, meaning that taxpayers could have more to lose than just the guaranteed loan amount if projects default. Both the Government Accountability Office (GAO) and the Congressional Budget Office (CBO) note that calculating subsidy costs is difficult.[ii] CBO said the subsidy costs are likely to be underestimated, which will provide additional incentives for well capitalized industries to self-pay subsidy costs in order to access loan guarantees. When DOE announced an $8.33 billion conditional loan guarantee to the Vogtle nuclear project in February 2010, Secretary Chu said the subsidy cost would fall between 0.5 and 1.5 percent. However, DOE has not formally revealed the actual subsidy cost the beneficiaries will have to pay, despite the fact that these loans are backed by taxpayers and the proposed subsidy cost is vastly below the 50 percent default rate that CBO estimated for similar projects.[iii] The Senate must ensure that CEDA is required to accurately calculate subsidy costs and reveal the costs for all projects backed by taxpayer funds.

CEDA Must Maintain Reasonable Portfolio Diversity

CEDA would not be required to ensure 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. CEDA must limit the amount of financial assistance that can go to any one technology so that a few large, capital-intensive projects do not crowd out assistance for cleaner, more cost-effective renewable and energy efficiency technologies.

CEDA Must Contain a Cost-Effective Greenhouse Gas Metric

CEDA 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 renewable energy. 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.

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[i] CBO at: http://ww.cbo.gov/doc.cfm?index=10637.
[ii] GAO at http://www.gao.gov/new.items/d07339r.pdf; CBO at http://www.cbo.gov/ftpdocs/82xx/doc8206/s1321.pdf.
[iii] CBO at http://www.cbo.gov/ftpdocs/42xx/doc4206/s14.pdf.

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