

## Bipartisan Policy Center Response to Request for Information on Innovative Technologies Loan Guarantee Program

**TO:** Loan Programs Office, Department of Energy

**DATE:** July 19, 2022

**RE:** RFI on Innovative Technologies Loan Guarantee Program

**FROM:** Bipartisan Policy Center

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### Summary

The Bipartisan Policy Center is writing in response to the Department's request for information on the financing structures that will best allow the Loan Programs Office to accelerate the deployment and commercialization of innovative clean technologies that are key to reducing greenhouse gas emissions (Section II. C.). BPC strongly supports the development and implementation of a broader range of tools by the DOE to responsibly scale the nation's clean energy economy and recommends that LPO expand its financial mechanisms to include:

- **Letters of Credit** — LPO should provide letters of credit to guarantee payment for projects that enter into power purchase agreements, providing certainty of payment in the event that offtakers are unable to meet their payment obligations.
- **Price Floors** — By providing a project with a price floor, LPO can help de-risk a project for investors who might otherwise worry market conditions would not provide a valuable price.
- **Equity Investments** — Direct equity would provide LPO with greater flexibility to invest in and provide working capital to promising growth-stage companies that may be unable to take on debt.
- **Warehouse Financing** — By offering warehouse financing, LPO can ensure that commodity-based projects can leverage their resources to obtain loan financing on better terms.

These financial tools ensure that LPO can provide clients with flexible financing options that best meet the needs of their project, catalyze private capital, and increase access to financial resources for critical mineral and supply chain projects as the office expands into these sectors following new authority provided by IIJA.

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In January 2022, The American Energy Innovation Council, a group of leading energy CEOs and technology and labor leaders, released a new report: *Scaling Innovation: A Proposed Framework for*

*Scaling Energy Demonstrations and Early Deployment*,<sup>1</sup> which included a recommendation that LPO utilize additional financial tools to best support an evolving clean energy industry. BPC applauds LPO's interest in exploring this recommendation with this RFI. Here, BPC recommends financial tools that LPO should adopt to drive impact and catalyze private capital. BPC recommends that DOE consider using other transaction authority (OTA) to implement some of the financial mechanisms suggested herein, utilizing this authority in a more flexible manner that aligns more closely with how other federal agencies make use of this authority.<sup>2</sup>

### Letters of Credit

LPO should provide letters of credit to guarantee payment to projects that enter into power purchase agreements with an offtaker. If a project enters into a purchasing agreement and the offtaker fails to fulfill their payment obligation, LPO would cover the offtaker's payment obligation for the project, reducing risk for investors.<sup>3</sup> Letters of credit would allow LPO to de-risk projects for investors by guaranteeing the project's offtake agreements are financially fulfilled. To prevent a moral hazard, letters of credit should be administered in such a way as to ensure a penalty for offtakers who fail to cover their payment obligation. Letters of credit were identified by the American Energy Innovation Council as a key tool to facilitate private investment.<sup>4</sup>

### Price Floors

During a recent event with the Bipartisan Policy Center,<sup>5</sup> LPO Director Jigar Shah noted that hydrogen projects have stated they could benefit from LPO providing them with a floor price for hydrogen, allowing the project to leverage the guaranteed minimum price of their product when seeking private investment. LPO would disburse funding to a project if the market price falls below a specified floor price and would be repaid when the market price is above the floor price. Floor prices should be set appropriately to align with the desired incentive structure. For example, LPO should consider whether to set a different floor price for hydrogen produced from different sources. Loans based on price floors

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<sup>1</sup> *Scaling Innovation: A Proposed Framework for Scaling Energy Demonstrations and Early Deployment*. The American Energy Innovation Council. January 2022. [https://bipartisanpolicy.org/download/?file=/wp-content/uploads/sites/2/2022/01/BPC\\_AEIC-Scaling-Innovation\\_Final-3.pdf](https://bipartisanpolicy.org/download/?file=/wp-content/uploads/sites/2/2022/01/BPC_AEIC-Scaling-Innovation_Final-3.pdf).

<sup>2</sup> *Other Transaction (OT) Authority*. Congressional Research Service. July 2011. [https://www.everycrsreport.com/files/20110715\\_RL34760\\_f11136704e71d804c8e8e7c8448280e22d2808b9.pdf](https://www.everycrsreport.com/files/20110715_RL34760_f11136704e71d804c8e8e7c8448280e22d2808b9.pdf).

<sup>3</sup> *Understanding Power Purchase Agreements*. U.S. Department of Commerce. <https://cldp.doc.gov/sites/default/files/PPA%20Second%20Edition%20Update.pdf>.

<sup>4</sup> *Scaling Innovation: A Proposed Framework for Scaling Energy Demonstrations and Early Deployment*. The American Energy Innovation Council. January 2022. [https://bipartisanpolicy.org/download/?file=/wp-content/uploads/sites/2/2022/01/BPC\\_AEIC-Scaling-Innovation\\_Final-3.pdf](https://bipartisanpolicy.org/download/?file=/wp-content/uploads/sites/2/2022/01/BPC_AEIC-Scaling-Innovation_Final-3.pdf).

<sup>5</sup> *12/7 Event Recap: Discussion with Jigar Shah on Scaling America's Clean Energy Infrastructure*. Bipartisan Policy Center. December 2021, <https://bipartisanpolicy.org/blog/12-7-event-recap-discussion-with-jigar-shah-on-scaling-americas-clean-energy-infrastructure/>.

were previously proposed to be authorized for low-carbon coal-to-liquid fuel projects in a bill with bipartisan support in 2006.<sup>6</sup>

### **Warehouse Financing**

With the new authorities provided by IJJA, LPO will need new financial tools well suited for commodity-based supply chain and critical mineral projects. By allowing companies focused on production of physical goods (e.g. lithium for batteries or rare earth elements for EV motor drives) to leverage existing stock as collateral for loans, warehouse financing can help fill this gap. Warehouse financing would provide these projects with working capital on favorable terms, while the physical goods provided as collateral in return reduce repayment risk for LPO. Mineral and supply chain projects often have different needs than other projects in the energy sector. Adopting warehouse financing would ensure that these projects are able to most efficiently utilize their resources to grow their business and attract private capital.

### **Equity Investments**

Direct equity would provide LPO with greater flexibility to invest in early and growth-stage companies and enable clients to scale operations more efficiently. Growth-stage companies often prefer equity investments because of the ability to access working capital without taking on debt.<sup>7</sup> While this type of investment is high-risk compared to debt financing, LPO's rigorous due diligence process should alleviate some of the risk involved and would also provide LPO with the opportunity to receive returns if a project is successful.<sup>8</sup>

This authority was recently provided by Congress to the Development Finance Corporation (DFC) at the Department of State through passage of the BUILD Act, so there is precedent for U.S. government agencies to leverage this type of financial mechanism.<sup>9</sup> Similar to DFC, LPO could consider implementing limits on equity investments as part of LPO's overall exposure to mitigate risk. Additionally, developing eligibility requirements for equity investments, which may include investing in projects that would not happen or would be delayed without LPO support, would promote participation of commercial partners and investing in projects that are designed to be commercially sustainable.<sup>10</sup>

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<sup>6</sup> H. R. 6249. A bill to authorize the Secretary of Energy to make price floor loans to certain low-carbon coal-to-liquid fuel projects. <https://www.govinfo.gov/content/pkg/BILLS-109hr6249ih/pdf/BILLS-109hr6249ih.pdf>.

<sup>7</sup> *A Green Bank Is the Right Tool for Jobs*. Center for American Progress. September 2011. <https://www.americanprogress.org/article/a-green-bank-is-the-right-tool-for-jobs/>.

<sup>8</sup> *Loan Guarantees for Clean Energy Technologies: Goals, Concerns, and Policy Options*. Congressional Research Service. January 2012. <https://crsreports.congress.gov/product/pdf/R/R42152>.

<sup>9</sup> *U.S. International Development Finance Corporation: Overview and Issues*. Congressional Research Service. January 2022. <https://sgp.fas.org/crs/row/R47006.pdf>.

<sup>10</sup> *DFC's Roadmap for Impact*. US IDFC. <https://www.dfc.gov/sites/default/files/media/documents/DFC%27s%20Roadmap%20for%20Impact.pdf>.