Written Statement of Nicholas Whitcombe
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U.S. Department of Energy
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Committee on Oversight and Government Reform
United States House of Representatives

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Introduction

Chairman Issa, Chairman Jordan, Ranking Member Cummings, Ranking Member Cartwright, and Members of the Committee, thank you for the opportunity to testify before you today. My name is Nicholas Whitcombe, and I served until recently as the Acting Director of the Department of Energy's (DOE) Advanced Technology Vehicles Manufacturing Loan Program. I currently serve as a Supervisory Investment Officer in the Loan Programs Office (LPO), of which the ATVM program is a part.

The Loan Program Office

The LPO administers two federal loan guarantee programs — Sections 1703 and 1705 — for energy technology projects authorized by Title XVII of the Energy Policy Act (EPAct) as amended. It also administers direct loans for the Advanced Technology Vehicles Manufacturing (ATVM) loan program as authorized under Section 136 of the Energy Independence and Security Act of 2007 (EISA). Congress created these programs to support innovative clean energy and advanced technology vehicle projects. As such, the LPO provides loans and loan guarantees to cutting-edge, innovative, energy technology manufacturing and generation projects in a wide range of sectors including renewables, nuclear, fossil, automotive, and transmission.

As of today, the LPO has committed or closed $35 billion in direct loans and loan guarantees, which support nearly three dozen projects, with total project costs greater than $55 billion. In 2011, the LPO represented the largest single public or private source of debt financing for clean energy projects in the United States as recognized in the *Bloomberg New Energy Finance, 2011 Clean Energy & Energy Smart Technology League Tables*. This financing has leveraged billions of dollars of private investment and augmented the capacity of capital markets to finance innovative and large-scale clean energy projects. LPO's projects include:

- One of the world's largest wind farms;
- The world's largest photovoltaic and concentrating solar power plants currently under construction;
- The first two all-electric vehicle manufacturing facilities in the United States;
- A conditional commitment to the first commercial nuclear power plant to be licensed and built in the United States in three decades; and
- One of the country's first commercial-scale cellulosic ethanol plants.

The ATVM Program

Created by Congress with strong bipartisan support, the ATVM Program was designed to accelerate the development and deployment of advanced technology vehicles that would help automobile manufacturers meet more stringent CAFE standards, create jobs, and reduce the nation's dependence on oil.

The ATVM 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 costs of associated engineering integration performed in the United States. In 2009, Section 136 was amended to include ultra-efficient vehicles within the definition of advanced technology vehicles. The ATVM program differs from the Title XVII program in that the ATVM program provides direct loans of federal funds, rather than loan guarantees, to the borrowers.

The ATVM Program has received numerous applications from both automobile original equipment manufacturers and component manufacturers and remains open to receive applications from the automotive industry on a continuous basis. To date, DOE has committed and closed five ATVM loans, totaling $8.4 billion, to auto manufacturers large and small who are adopting cutting-edge technologies and deploying them into the market.

Rigorous Due Diligence to Protect Taxpayers' Interests

Congress appropriated nearly $10 billion to cover the credit subsidy costs of ATVM loans and Title XVII loan guarantees, thereby acknowledging the inherent risks of funding new and innovative technologies in industries that were facing significant market and economic challenges. As former Assistant Secretary of the Treasury for Financial Stability Herbert Allison noted in a January 2012 report, since the LPO focuses "on providing support to projects involving innovative technologies that needed support to become commercialized and diffused through the marketplace, the supported projects inherently involve higher degrees of risk and uncertainty than projects that are typically financed in the banking and securities markets."[1] By appropriating this credit subsidy, Congress also ensured that estimated defaults, prepayments, fees, penalties, and other recoveries in the LPO's portfolio would be properly accounted for in the federal budget, pursuant to the Federal Credit Reform Act.

The LPO underwrites and structures its loans and loan guarantees to protect the interests of taxpayers and maximize prospects for full repayment. Before making a loan or loan guarantee, the LPO conducts extensive due diligence on the application, with rigorous financial, technical, legal and market analysis by DOE's professional staff, including qualified engineers and financial experts, and outside advisors. A Government Accountability Office report stated that, "it is noteworthy that the process [the LPO Title XVII loan guarantee program] developed for

[1] Herbert Allison, "Report of the Independent Consultant's Review with Respect to the Department of Energy Loan Guarantee Portfolio," January 31, 2012, *available at* http://www.whitehouse.gov/sites/default/files/docs/report_on_doe_loan_and_guarantee_portfolio.pdf.

performing due diligence on loan guarantee applications may equal or exceed those used by private lenders to assess and mitigate project risks."[2]

Following the loan closing, the LPO monitors each borrower's performance against its business plan and projections. As part of this process, the program works to manage risk to the portfolio. As the Allison Report stated, the LPO is not a "passive bystander" when monitoring a loan; rather, the LPO has the ability to reduce or mitigate risk in the portfolio over time and has "robust tools" for protecting itself from elective risk and to ensure adequate protection of the interests of U.S. taxpayers. The Allison Report also confirmed that while these projects by their nature involve certain risk, LPO's portfolio as a whole is performing well.

The ATVM Portfolio

ATVM funding has played a critical role in the development of advanced technology vehicles by providing long-term capital when private financing was not available:

- The LPO provided a $5.9 billion loan to Ford Motor Company to upgrade and modernize thirteen factories across six states and to introduce new technologies to raise the fuel efficiency of more than a dozen popular vehicles, including Focus, Escape, Fusion, Taurus, and F-150 trucks, representing approximately 900,000 new vehicles annually.

- In Smyrna, Tennessee, the first advanced battery packs produced in the United States are coming off the production line of Nissan North America's production plant. These advanced batteries are powering U.S.-made all electric Nissan LEAF cars. The construction of the 1.3-million-square-foot, state of the art battery facility was made possible through a loan from the LPO for up to $1.4 billion.

- Tesla Motors received a $465 million loan from the Department in 2010, allowing the company to reopen an auto manufacturing plant in Fremont, California and develop a manufacturing facility to produce battery packs, electric motors, and other powertrain components. Tesla vehicles have won wide acclaim, including the 2013 Car of the Year from both Motor Trend and Automotive Magazine. Tesla recently announced it will complete the repayment of its $465 million loan from LPO in 2017, five years ahead of schedule.

- The Vehicle Production Group received a $50 million loan from the Department in March 2011, allowing the company to support the development of the six-passenger MV-1, a factory-built wheelchair accessible vehicle that will run on compressed natural gas.

[2] Government Accountability Office, "DOE Loan Guarantees," March 2012, available at http://www.gao.gov/products/GAO-12-157. While the March 2012 GAO report focuses on the underwriting and diligence process for DOE loan guarantees under Title XVII of the Energy Policy Act of 2005, LPO, which manages both the Title XVII loan guarantee program and the ATVM loan program, employs similar underwriting and due diligence processes for both programs.

Fisker Automotive

On April 22, 2010, the LPO closed a $529 million loan to Fisker Automotive for the development and production of two lines of plug-in hybrid electric vehicles: the Karma and the Atlantic. To date, $192 million of the loan has been disbursed to Fisker to fund eligible Karma expenses and to partially fund the purchase of a former General Motors plant in Delaware. These funds were used, for example, to support engineering for the Karma at Fisker's United States facilities in Anaheim, California to develop tools, equipment, and manufacturing processes.

From the outset, the Department established rigorous benchmarks, keyed to progress on the Karma and Atlantic product lines, as conditions precedent to any disbursements of Fisker's loan. As has been publicly reported the Department understands that Fisker has recently faced certain financial difficulties, has terminated a significant portion of its workforce, and has been engaged in a process of seeking additional private investment.

The Department has acted decisively to protect the taxpayers' interest since it became evident that Fisker faced financial difficulties. In June 2011, the Department ceased making disbursements to Fisker after the company began to fall short of the milestones required in the loan agreement. Since then, the Department has continued to communicate with Fisker as it has sought to revise its business plan and achieve profitability. The Department is continuing to communicate with Fisker regarding its obligations under the loan agreement, and is committed to ensuring that the taxpayers' interests are protected to the maximum extent possible.

Conclusion

Four years ago, the American automobile industry was on the brink of collapse during a historic economic crisis. Now, in part because of help from the ATVM program, America's automotive industry is reinventing itself — expanding production, growing profits, creating jobs, and making more fuel efficient automobiles. While American manufacturing continues to face substantial challenges, its future prospects are stronger than they have been in over a decade. The Department looks forward to continuing its support of this success.

I look forward to answering any question you may have.

Nicholas Whitcombe

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