COMMITTEE ON
SCIENCE, SPACE, & TECHNOLOGY
Lamar Smith, Chairman

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Statement of Chairman Lamar Smith (R-Texas)
Risky Business: The DOE Loan Guarantee Program

Chairman Smith: I thank the chairmen for holding this morning's joint hearing.

Today, we will hear from a number of expert witnesses on the market impact and risk associated with federal loan guarantees for energy innovation.

The Department of Energy (DOE) loan guarantee program was established in 2005. It was intended to provide federal loan guarantees to advance commercial application of innovative clean energy technology.

In short, the Department "guarantees" a loan given to an energy company. By guaranteeing a loan, DOE tells private investors that if the company defaults, the taxpayers will foot the bill for the loan.

This takes the risk away from investors who stand to profit and puts it on the American people. Instead of the private sector taking on risk to develop new technology, the government steps in and risks taxpayer dollars on energy projects.

In 2009, Congress expanded the loan guarantee program and gave DOE $2.4 billion and the authority to subsidize the management costs of loan guarantees.

Instead of careful vetting and appropriate metrics to avoid risk, the DOE rushed loan applications and issued $16 billion in loans to 26 projects.

President Obama's political allies, like Solyndra, were often fast-tracked, with little consideration for project merit or benefits to the taxpayer.

The results were predictable. High profile defaults occurred, like the $535 million loan provided to Solyndra in 2011, $68 million lost when Abound Solar filed for bankruptcy in 2012, and $139 million lost from a direct loan to Fisker Automotive.

These events demonstrate what happens when the federal government picks winners and losers in the energy market.

DOE has lost over $800 million on bad loans since 2005.

According to estimates from the Government Accountability Office, the total cost for the current loan portfolio is $2.2 billion plus $312 million in program administrative costs. This is the cost to manage the current loan portfolio over the lifetime of the loans.

These costs will increase if another loan defaults or if the Department issues new loan guarantees to projects with any financial risk.

Under the DOE loan guarantee program, American tax dollars also subsidize loans for large companies with billions in available capital like Ford, Goldman Sachs, Google, GE, and Berkshire Hathaway.

And if something goes wrong, these companies aren't stuck with the bill – the America people are. It is unfair to ask American taxpayers to subsidize risky loans.

DOE also provides a government "stamp of approval" to favored technologies through loan guarantees. That means that even when DOE backs a successful project, it drives private investment away from technologies that don't receive federal loan guarantees.

Private sector companies can't compete with other private sector companies that get loan guarantees.

We have a unique opportunity to examine the Department of Energy's programs. It is our responsibility to oversee the use of the Department's resources and only reauthorize those programs that provide the best investment for the American people.

Though its loan guarantees have a suspect past, DOE has an exemplary track record in basic research.

The Department's national labs and scientific user facilities provide opportunities to university researchers and private innovators as they search for the next great breakthrough in energy technology.

And unlike the DOE loan guarantee program, the national labs are open to every innovative entrepreneur – not just those with a certain political agenda.

As we reauthorize the Department of Energy's research and development programs, we should prioritize the basic and early-stage research that cannot be accomplished by the private sector.

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