

ALTERNATIVE FUEL

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It's not easy going green in the middle of a financial crisis, as President Obama is starting to discover. Even as we spend \$1 trillion or so cleaning up the banking system, the political wrangling that was necessary to pass the stimulus legislation makes the \$150 billion the president wants to allocate to clean energy programs over the next decade look less likely.

The reality is that funding constraints threaten to hinder the new administration's promise to deliver a "new energy future" and to derail the national security goal of breaking the country's dependence on foreign fuel by increasing the use of "home-grown" energy sources, like solar and wind.

Under current conditions, it is unclear when or whether the 111th Congress will establish a federal renewable energy standard, which would do much to accelerate the deployment of these technologies. Undoubtedly, implementing such a requirement would drive the price of energy higher in the short term. The political pressure to avoid such an increase at present will be intense.

Private capital markets, once receptive to alternative energy projects, have virtually shut down. While the stimulus created a program that will provide renewable energy developers 30% grants in lieu of tax credits, it remains to be seen if private lending or equity will be available to fund future projects. This is in spite of the fact that more than half the states require utilities to procure increasing percentages of renewable energy -- providing a clear source of revenue. As it stands today, even the lowest-cost projects with tested technology and a clear path to profitability cannot borrow the money they need.

The stimulus also authorized \$6 billion in new lending authority to the Department of Energy for renewable energy loan guarantees. Even without the additional stimulus funds, the DOE loan guarantee program had \$10 billion in lending authority available for renewable energy. However, since the program

was established in 2005, the agency has not approved a single loan guarantee. A review by the Governmental Accountability Office last summer found the DOE lacked the management and internal control activities to carry out the program.

According to the GAO, the DOE lacked the basic internal policies and procedures to evaluate applications.

To address frozen capital markets, a bipartisan effort, coordinated by Reps. Chris Van Hollen, D-Md., and Zach Wamp, R-Tenn., is underway to create a quasi-government agency for lending to the renewable energy sector. This lending authority -- let's call it the Renewable Energy Private Investment Corp. -- can be quickly deployed and fill the funding gap.

Even as the DOE attempts to streamline its loan guarantee program, support for a lending authority without the inefficiency and delay experienced by the DOE is gaining traction in Congress and off the Hill.

REPIC could be developed using a tested and successful model in project lending -- the Overseas Private Investment Corp. Congress formed OPIC in 1971 with a mission to facilitate U.S. private capital in developing countries overseas. It conducts financing, insurance, and reinsurance operations on a self-sustaining basis, using private credit and investment institutions in combination with OPIC's guaranty authority as a principal means of mobilizing capital investment. OPIC supports projects of all sizes, requiring minimum environmental, social, and labor standards as a condition to lending. Most notably, OPIC only provides lending where the private sector refuses to lend.

Like OPIC, REPIC would be designed to quickly become self-sufficient. Aside from its initial capitalization, it would operate at little or no cost to the U.S. taxpayer, charging borrowers market-based fees based upon project cost while providing stability to

an industry rattled with a patchwork of uncertain economic incentives. REPIC would act as a lender of last resort for good, financially and commercially sound projects. It would require that investors undertake substantial diligence reviews, establish sound finances, and meet social and environmental standards.

OPIC looks at the project as a whole and bases its fees on quantified risk. Interest rates and fees are based generally on the price of U.S. government-issued securities plus a premium based on OPIC's assessment of the project's commercial and political risks. REPIC would do the same. With any luck, REPIC might actually return money to the U.S. Treasury, as is the case with OPIC.

Importantly, REPIC could serve as a unifying government vehicle to house experts committed to funding solid renewable projects with projected revenue streams based on objective and non-political criteria. We envision an advisory council and staff that are specialists in environmental policy, energy technology, and finance. Specialists would be available within REPIC to work with applicants early in the application process, giving companies an indication in the event a particular project was not bankable.

As the financial crisis eventually lessens, and private lending

returns, REPIC could lend to those cutting-edge renewable energy developers with promising technologies that the financial sector finds risky, uncertain or difficult to evaluate. Similarly, REPIC could look to OPIC's risk insurance as a model for insuring such technologies. This kind of support could decrease investment costs for project developers, spread risk, stimulate American jobs and increase investor confidence.

REPIC could serve as both a temporary and long-term solution to renewable energy investment in the United States. In the short term, it should unfreeze much-needed capital investment and help us to develop projects competitive with those in other industrialized countries that have demonstrated a serious commitment to less carbon-intensive energy.

In the long term, it could fund and reward American ingenuity, create the 5 million jobs Obama envisioned, promote a cleaner environment and improve national security by decreasing our reliance on foreign fuel. We think it is an idea that should be seriously considered at this critical energy crossroad.

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