

2009 Gas and Power Institute

**Federal Update Part II:
The Impact of the American Recovery
and Reinvestment Act of 2009 on Energy
Infrastructure Development**

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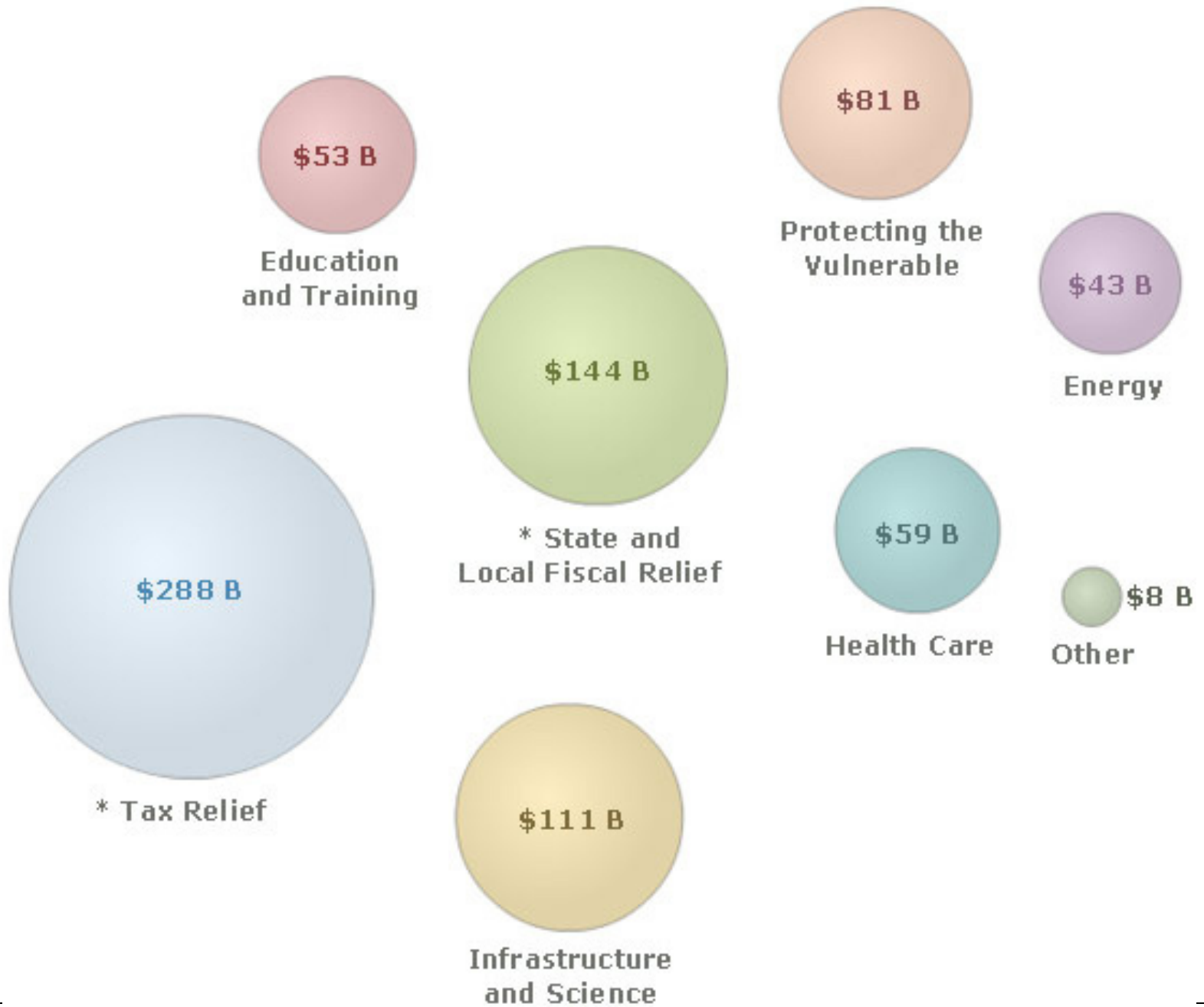
September 10, 2009

September 2009
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The Recovery Act

- **Passed in February 2009**
- **Compromise of \$787 billion**
- **Intended primarily as a jobs bill**
 - Expected to create or save 3.5 million jobs over the next two years
 - Texas estimate – 269,000 jobs





Implementing Agencies

- **28 Agencies/Departments**
- **Department of Education – \$45.5 billion**
- **Agency for International Development – \$5 million**
- **Department of Energy – \$9.6 billion**
- **Department of the Treasury – \$1.49 billion**

Impact on Texas Energy Infrastructure?

- **DOE announced 28 new wind energy projects**
 - Up to \$132.8 million in funding
 - \$12.8 million from Recovery Act
 - Wind turbine research & testing
 - None in Texas
- **DOE announced five solar projects**
 - Up to \$11.8 million in funding
 - \$5 million from Recovery Act
 - Advance next stage of development of solar energy grid integration systems
 - None in Texas
- **Treasury and DOE announced Treasury Grants for 12 projects**
 - Total \$502 million
 - 1 in Texas - \$114 million

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Department of Energy

- **Recovery Act amended existing programs**
- **Energy Efficiency Programs**
 - **\$3.2 billion for Energy Efficiency and Conservation Block Grants**
 - **\$5 billion for Weatherization assistance**
 - **\$3.1 billion for State Energy Programs**



Department of Energy

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- **Energy Policy Act of 2005**
 - Innovative Technology Loan Guarantee Program
- **Energy Independence & Security Act of 2007**
 - Smart Grid Investment Grants
 - Smart Grid Demonstration Grants



Original Loan Guarantee Program

- **Title XVII of Energy Policy Act of 2005 authorized Loan Guarantee Program for Innovative Technologies**
 - § 1703 required Eligible Technologies to
 - Avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases and
 - Employ new or significantly improved technologies as compared to commercial technologies
 - DOE adopted rules in May 2007
 - In 2008, issued four solicitations for \$40.5 billion of guarantees

Loan Guarantee

- **DOE offered \$535 million loan guarantee to Solyndra, Inc. on March 20, 2009**
 - Announced finalization of loan guarantee on September 4, 2009



Loan Guarantee Program

- **Recovery Act amended Title XVII of the Energy Policy Act of 2005 to add § 1705, which created --**
Temporary Program for Rapid Deployment of Renewable Energy and Electric Power Transmission Projects
- **Appropriation: \$6 billion**
 - Supports \$60 billion in loans
 - Up to 80% of costs may be guaranteed
 - Construction must commence by September 30, 2011

Temporary Loan Guarantee Program

- **Eligible Projects**
 - Renewable energy systems that generate electricity or thermal energy, including incremental hydroelectric projects and manufacture of related components
 - Electric power transmission systems
 - “Leading edge” bio-fuel projects
 - Must be likely to become commercial technologies
 - Must produce commercial fuel that substantially reduces life-cycle greenhouse gas emissions compared to alternative fuels
 - Capped at \$500 million of the \$6 billion
- **No requirement to use innovative technology**

- **Who will be administering?**
 - DOE's Loan Guarantee Program Office

The logo for the DOE Loan Guarantee Program is a blue rectangle with white text. The text is arranged in three lines: "LOAN" on the top line, "GUARANTEE" on the middle line, and "PROGRAM" on the bottom line. There are small white circles on either side of the text, one to the left of "LOAN" and one to the right of "PROGRAM".

◦ LOAN
GUARANTEE
PROGRAM ◦

- **How will it be administered?**
 - Through existing Loan Guarantee Program
 - www.lgprogram.energy.gov
 - Solicitation Process
 - Applications required

Open Solicitations

- **On July 29, DOE issued two Loan Guarantee Solicitation Announcements**
 - **Electric Power Transmission Infrastructure Projects**
 - **Innovative Energy Efficiency, Renewable Energy, and Advanced Transmission and Distribution Technologies**

Solicitation Process

- **Solicitation Announcement**
 - Description of projects solicited
 - Eligibility information
 - Detailed Application Instructions
 - Detailed description of expected process
 - Deadlines
- **Applications due by announced deadlines**
- **DOE and its contractors conduct evaluations**
- **DOE announces selected applications**
- **Negotiations for Loan Guarantee begin**

Transmission Solicitation – Eligibility



- in the U.S.
- utilize a Commercial Technology
- be reasonably likely to commence construction on or before September 30, 2011
- meet all requirements of Title XVII of Recovery Act
- not be capable of being financed from private sources on standard commercial terms
- meet one of the following criteria:

Transmission Solicitation – Eligibility

- involve new or upgraded lines of 100 miles of 500kV or 150 miles of 345 kV
- at least 30 miles of transmission cable under water
- have an HVDC component
- be a major interregional connector
- be designated a “National Interest Electric Transmission Corridor” by DOE
- be associated with offshore generation, such as open ocean wave energy
- mitigate a substantial reliability risk for major population center or
- consist of a major set of improvements to an integrated system within a state or region – 100 miles of 500 kV or 150 miles of 345 kV



Innovative Solicitation – Eligibility

- Seeking projects under **original** Innovative Loan Guarantee Program (§ 1703 of Energy Policy Act)
- \$8.5 billion
- To qualify under § 1703, project must involve
 - new or significantly improved technologies that avoid, reduce, or sequester air pollutants or greenhouse gas emissions.
- Solicitation includes non-exclusive list of technology categories:

Innovative Solicitation – Eligibility



- Alternative fuel vehicles
- Biomass
- Efficient electricity transmission, distribution and storage
- Energy efficient building technologies and applications
- Geothermal
- Hydrogen and fuel cell technologies
- Energy efficiency projects for industrial, commercial, and institutional applications
- Solar
- Wind and hydropower



Innovative Solicitation – Eligibility



- To qualify under **§ 1705**, project must
 - commence construction on or before September 30, 2011
 - meet additional requirements of Recovery Act, such as Davis-Bacon Act wage rate requirements
 - fit into one of the following categories
 - renewable energy systems
 - electric power transmission systems projects
 - leading edge biofuel projects
 - Employ a New or Significantly Improved Technology

Credit Subsidy Fee

- Energy Policy Act requires DOE to receive either
 - An appropriation for the credit subsidy cost of a loan guarantee or
 - A cash payment of such cost from applicant
- Nonrefundable, paid at or before closing
- Net present value of the estimated long-term cost to the U.S. Government of the loan guarantee as determined under the Federal Credit Reform Act of 1990
 - For Transmission FOA, DOE will pay Credit Subsidy Fee
 - For Innovative FOA, DOE will pay Credit Subsidy Fee for a §1705 eligible project

- **For Transmission Infrastructure FOA:**
 - Part I Due September 14, 2009
 - Part II Due October 26, 2009
 - December 10, 2009

- **For Innovative FOA: Seven Rounds available**
 - First Deadline
 - Part I September 14, 2009
 - Part II November 13, 2009
 - Last Deadline
 - Part I August 24, 2010
 - Part II December 31, 2010

Types of Information DOE Seeking

- **Project Description**
 - Time Lines
- **Technical Information**
 - Engineering and Construction Plans
 - Operation and Maintenance Plans
 - Permits and Approvals
 - Independent Engineer's Report
 - Environmental Report
- **Business Plan**
 - Financial Analysis
 - Market Analysis
 - Contracts
 - Management Plan
 - Operational Risks & Mitigation Strategies

Types of Information DOE Seeking

- **Financial Plan**
 - Legal Structure
 - Financial Statements
 - Credit History
 - Litigation
 - Financial Model
 - Sources of funds
 - Letters of Intent
 - Collateral
 - Preliminary Credit Assessment

Types of Information DOE Seeking

- **Environmental Information**
 - National Environmental Policy Act of 1969 (“NEPA”) requires Federal agencies to consider potential environmental impacts of their actions
 - Some environmental information required in Application
 - Then DOE decides whether –
 - a categorical exclusion applies
 - an Environmental Assessment is required
 - an Environmental Impact Statement is required

Other Required Fees

- **DOE also expects three types of additional fees from Applicants:**
 - Application fee
 - Facility fee
 - Maintenance fee
- **For Transmission Solicitation:**
 - Application Fee – \$800,000 (\$200,000 payable with Part I; \$600,000 payable with Part II)
 - Facility Fee – $\frac{1}{2}$ of 1% of guaranteed portion of Guaranteed Obligation
 - Maintenance Fee – Expected to be in range of \$200,000 to \$400,000 per year

Other Required Fees

- **For Innovative Solicitation:**
 - Application Fee – ranged from \$75,000 to \$125,000 based on loan guarantee amount
 - Facility Fee – varied, based on amount sought, from 1% of guaranteed amount to \$1,625,000 + 0.50% of guaranteed amount
 - Maintenance Fee – Expected to be \$50,000 to \$100,000 per year
- **Fees for DOE's consultants and outside legal counsel**

New Rulemaking

- **August 6 – DOE issued a proposed rule**
- **Revising regulations governing Innovative Technology Program under § 1703**
- **Changing DOE requirement for first lien position**
 - **Revises DOE interpretation of § 1702 of Energy Policy Act**
 - **Previously, DOE had to receive a first lien security interest in all project assets to make the guarantee**
 - **Under proposed revised rules, a first lien on all project assets is “one element that the Secretary may require for a particular project, but is not compelled by the statute to require”**

DOE Grants



Smart Grid Grants

- **Recovery Act provides \$4.5 billion for electricity delivery and energy reliability**
- **Amended Energy Independence and Security Act of 2007**
 - Smart Grid Investment Grant Funding Opportunity Announcement
 - Smart Grid Demonstration Funding Opportunity Announcement

- **Who will be administering?**
 - DOE's Office of Electricity Delivery and Energy Reliability



- **How will it be administered?**
 - Through Solicitation Process
 - Applications required

Smart Grid Investment Grants



- **\$3.4 billion available**
- **Awards for up to 50% of eligible project costs**
- **40% of funds for smaller projects – DOE’s share between \$300,000 to \$20 million**
- **60% of funds for larger projects – DOE’s share between \$20 million to \$200 million**
- **Period of performance – 3 years**
- **Project must support “Smart Grid Function”**

Smart Grid Functions



Examples of Smart Grid Functions:

- Ability to develop, store, send and receive digital information concerning electricity use, costs, prices, time of use, nature of use, storage, or other information
- Ability to measure or monitor electricity use as a function of time of day, power quality characteristics
- Ability to sense and localize disruptions or changes in power flows on the grid and communicate such information instantaneously for purposes of enabling automatic protective responses

Smart Grid Investment Grants

- **Three phases of applications**
- **Applications due:**
 - Phase 1 August 6, 2009
 - Phase 2 November 4, 2009
 - Phase 3 March 3, 2010
- **Anticipated award schedule:**
 - Phase 1 October 2009
 - Phase 2 March 2010
 - Phase 3 June 2010

Who Will Be Seeking Grants?

- **Appliance manufacturers**
- **Large industrial and commercial users**
- **Electric Utilities**
- **Retail sellers and marketers of electricity**
- **Entities that operate regional electric grids**
- **Owners of distributed generation**
- **Makers of hybrid-electric vehicles**
- **Anyone who can document expenditures related to purchasing and implementing Smart Grid Functions in “such other cases as the Secretary shall identify”**

Smart Grid Demonstration Grants



- **\$615 million available**
- **Regional Demonstrations**
 - Anticipated Award Size – up to \$100 million
- **Grid-Scale Energy Storage Demonstrations**
 - Anticipated Award Size – ranges from \$25 million to \$60 million
- **Applications due August 26, 2009**

Smart Grid Demonstration Grants

- **Who will be administering?**
 - DOE's National Energy Technology Laboratory



- **How will it be administered?**
 - Through Solicitation Process
 - Applications required

Additional DOE Programs

- **Small Business program**
- **Financial Institution Partnership Program – “FIPP”**



Treasury Grants

Grants for Renewable Energy Property

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- Recovery Act makes grants available in lieu of Production Tax Credits or Investment Tax Credits
- Available for wind, solar, geothermal, and other renewable energy investments
- Guidance issued on July 9
- Began accepting applications on August 1

Grants for Renewable Energy Property

- **Submit applications online at www.treasury.gov/recovery**
- **Applications may only be submitted after the property is placed in service or is under construction**
 - For property placed in service in 2009 or 2010, application must be submitted after the property has been placed in service and before October 1, 2011
 - For property not placed in service in 2009 or 2010 but for which construction began in 2009 or 2010, applications must be submitted after construction commences but before October 1, 2011

- **Treasury must extend a grant within 60 days of the later of**
 - Date of application for grant
 - Date property is placed in service
- **Grant generally equals 10% or 30% of basis of eligible property**
 - Depends on type of property
 - Basis will be determined using general tax principles

Treasury Grants

- **Subject to recapture**
- **Applicant must certify to Treasury on an annual basis for a period of five years from date property placed in service that**
 - property has not been disposed of to a disqualified person and
 - property continues to qualify as specified energy property
- **Any amount subject to recapture becomes a debt owed to U.S.**

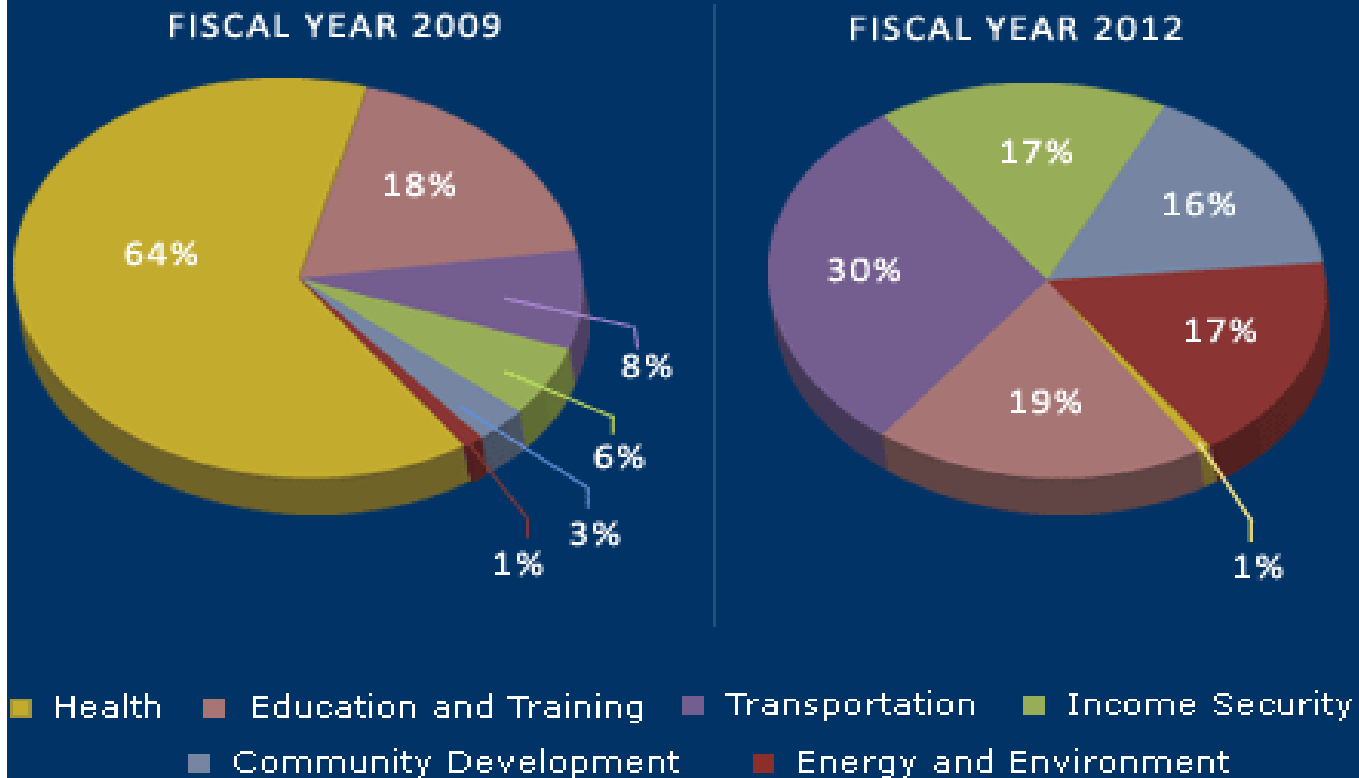
Treasury Grants

- **September 1, 2009 – Treasury and DOE announced \$502 million in the first round of awards**
 - Support more than 2,000 construction and manufacturing jobs
 - 12 projects in 8 states
 - 1 in Texas – a wind farm in Sarita, Texas - \$114 million

Future Spending

Future Spending

Composition of State and Local Recovery Act Funding



Source: GAO analysis of CBO and FFIS data

Questions?