Inflation Reduction Act Loan Funds Will Aid Energy Innovation

By **Mark Riedy, John Loving and Stephen Anstey** (August 12, 2022)

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On July 27, Sen. Joe Manchin, D.-W.Va., and Sen. Chuck Schumer, D.-N.Y., announced new draft reconciliation legislation known as the Inflation Reduction Act. The act provides $433 billion in total investments, with $369 billion for energy security and climate change, as well as $64 billion for an Affordable Care Act extension.[1]

Of the $369 billion for energy security and climate change, which supports various tax incentives, programs and other initiatives, the Inflation Reduction Act provides approximately $70 billion in new funds to the U.S. Department of Energy's Loan Program Office.

The DOE's LPO provides loan guarantees to "help deploy innovative clean energy, advanced transportation, and tribal energy projects in the United States."[2]

As such, the LPO is primed to support the Biden administration and Congress in their push for increased environmentally responsible domestic energy development, by providing project financing for groundbreaking industries like clean hydrogen, offshore wind, electric vehicles and EV charging, long-duration energy storage — including iron-flow, gravity-based and other types of batteries — sustainable aviation fuel, renewable diesel, other clean fuels, carbon direct air capture, and carbon capture and sequestration.

In addition to driving broad energy development throughout the U.S., the LPO, through its Tribal Energy Loan Guarantee Program, or TELGP, has the capacity to transform tribal communities into clean energy juggernauts. Tribal communities control roughly 55 million acres of land in the U.S., much of which is prime for clean and renewable energy development.[3]

The total utility-scale technical potential for renewable energy on tribal lands in the contiguous 48 states is 20,912 terawatt-hours annually, according to a recent study funded by the DOE.[4] To put the significance of this number in context, in 2018, the U.S. produced a total of 4,178 TWh of electricity.[5]

Despite this staggering energy production potential, tribes often face difficulty in procuring necessary capital to develop projects. The LPO, which would have its TELGP lending authority dramatically increased through the Inflation Reduction Act, has the potential to drive significant clean and sustainable tribal energy development.

We review the act's allocations related to the LPO below.

$40 Billion for the Title XVII Loan Guarantee Program

The LPO has a demonstrated track record of success in providing support to developing U.S. energy and technology sectors. Since 2009, the LPO has issued over $35 billion in loans and loan guarantees.[6]
Further, the LPO currently administers approximately $40 billion available for loans and loan

guarantees.[7] The Inflation Reduction Act would provide an additional $40 billion in funding to the LPO's Title XVII loan guarantee program to support U.S. energy infrastructure development.

The additional $40 billion in LPO funding has the potential to provide financing for environmentally responsible energy projects that also support domestic energy independence. This available financing is particularly critical for ultramodern energy technologies like clean hydrogen, long duration energy storage, carbon capture and sequestration, carbon direct air capture, and others.

$3 Billion for the Expanded DOE Advanced Technology Vehicles Manufacturing Direct Loan Program

The DOE's Advanced Technology Vehicles Manufacturing direct loan program, or ATVM, which operates through the LPO, currently administers approximately "$17.7 billion in available funding to provide low-cost debt capital for fuel-efficient vehicle and eligible component manufacturing in the United States," with a focus on light-duty vehicles that meet or exceed certain fuel efficiency requirements.[8]

In addition to, and separate from, the $40 billion in additional funding that would be provided to the LPO for the Title XVII loan guarantee program, the Inflation Reduction Act also would provide an additional $3 billion in funding to the ATVM.

This $3 billion in additional funding will support manufacturing of medium-duty and heavy-duty vehicles that meet certain greenhouse gas emissions standards, including trains, maritime vessels, aircraft and hyperloop technology. The expansion of the ATVM was authorized in the Infrastructure Investment and Jobs Act in 2021.

The ATVM has already galvanized the light-duty vehicle industry, both as it relates to increasing fuel efficiency and reducing greenhouse gas emissions. The Inflation Reduction Act now provides new lending authority and funding for medium-duty and heavy-duty vehicles, which greatly increases the reach and capacity of the ATVM program.

Furthermore, the ATVM has expanded the concept of heavy-duty vehicles to include the financing of projects and cutting-edge technologies such as trains, maritime vessels, aircraft and hyperloop systems.

$3.6 Billion for the Costs of Guarantees Under Title XVII Loan Guarantee Program

The Title XVII loan guarantee program supports the development of projects that (1) improve commercial technologies; (2) reduce greenhouse gas emissions; (3) are located in the U.S.; and (4) provide reasonable likelihood of repayment.[9]

The Inflation Reduction Act would provide the LPO with $3.6 billion for costs associated with loan guarantees made under the Title XVII program, thereby allowing the LPO to pay down associated borrower fees and underwriting costs.

While perhaps slightly less flashy than the other funding provided to the LPO under the act, this $3.6 billion improves the attractiveness and impact of LPO funding, by assisting borrowers to pay for the costs of guaranteed loans made under the Title XVII program.

$5 Billion for Energy Infrastructure Reinvestment Financing Under Title XVII Loan Guarantee Program

The Inflation Reduction Act amends the Title XVII loan guarantee program, and allocates $5 billion to support energy infrastructure reinvestment financing under the LPO.

The act amends the Title XVII program by adding Section 1706, which authorizes the secretary of energy to make guarantees, including refinancing, for projects that either "retool, repower, repurpose, or replace energy infrastructure that has ceased operations" or "enable operating energy infrastructure to avoid, reduce, utilize, or sequester air pollutants or anthropogenic emissions of greenhouse gases."[10]

Under this program, "energy infrastructure" includes facilities and equipment that (1) generate and transmit energy, or (2) produce or process fossil fuels or petrochemical feedstocks.[11] Notably, under this program a project that involves fossil fuels must incorporate controls or technologies that reduce or sequester air pollutants and greenhouse gas emissions.[12] The $5 billion allocated to support energy infrastructure reinvestment financing under the LPO is in addition to the amounts previously referenced.

Throughout the U.S., there is considerable defunct energy infrastructure. This $5 billion in funding is significant because it not only supports the development of projects that reduce or sequester greenhouse gas emissions, but also drives the repurposing or redevelopment of existing energy infrastructure that has ceased operations.

Tribal Energy Loan Guarantee Program Funding Level Increased to $20 Billion

The LPO's TELGP facilitates energy development by providing direct loans or partial loan guarantees to federally recognized tribes.[13] The Inflation Reduction Act amends the Energy Policy Act, passed in 2005, by increasing the aggregate outstanding amount guaranteed by the secretary of energy at any time under the TELGP, from up to $2 billion, to up to $20 billion.

As noted, tribal lands have the potential to serve among the largest and most productive renewable energy development sites in the U.S. However, energy development on tribal lands is often frustrated by underdeveloped relationships between tribes and institutional energy developers and finance companies, as well as insufficient access to capital.

By providing $20 billion in total loan guarantee authority for tribal energy development, the TELGP has the capacity to drive historic energy development in tribal communities across the U.S., while also strengthening and diversifying tribal economies.

Takeaways

The LPO is a unique and effective driver of U.S. energy and energy storage development.

Not only does it support the development of innovative energy projects, it does so in a fiscally responsible manner. Historically, the LPO has a default rate of less than 3%, and earns the federal government about $500 million a year in interest income on its development projects.

The more than $70 billion in additional funding provided to the LPO under the Inflation Reduction Act has the capacity to drive expansive U.S. and tribal energy development —

thereby supporting both domestic energy security and environmentally responsible energy initiatives.

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[1] Inflation Reduction Act of 2022 Legislative Text, Senate Democrats (last visited Aug. 4, 2022), https://www.democrats.senate.gov/inflation-reduction-act-of-2022.

[2] LPO, Department of Energy Loan Program Office (last visited Aug. 4, 2022), https://www.energy.gov/lpo/loan-programs-office#:~:text=LPO%20has%20more%20than%20%2440,a%20variety%20of%20energy%20sectors.

[3] Trusteeship, US Department of the Interior (last visited Aug. 4, 2022), https://www.doi.gov/restoration/trusteeship#:~:text=The%20Bureau%20of%20Indian%20Affairs,governments%20to%20help%20protect%20water, Tribal Energy Projects Database, Office of Indian Energy Policy and Programs (last visited August 4, 2022), https://www.energy.gov/indianenergy/tribal-energy-projects-database.

[4] Milbrandt, Anelia, Donna Heimiller and Paul Schwabe, Techno-Economic Renewable Energy Potential on Tribal Lands, National Renewable Energy Laboratory (2018), https://www.nrel.gov/docs/fy18osti/70807.pdf.

[5] Record U.S. Electricity Generation in 2018 Driven by Record Residential, Commercial Sales, U.S. Energy Information Administration (March 6, 2019), https://www.eia.gov/todayinenergy/detail.php?id=38572.

[6] LPO Brochure, Department of Energy Loan Program Office (last visited Aug. 4, 2022), https://www.energy.gov/sites/default/files/2020/05/f74/DOE-LPO-Brochure-May2020.pdf.

[7] Id.

[8] ATVM Fact Sheet, Department of Energy Loan Program Office (last visited Aug. 4, 2022), https://www.energy.gov/sites/default/files/2020/01/f70/DOE-LPO-ATVM-Jan2020.pdf.

[9] Title XVII Project Eligibility, Department of Energy Loan Program Office (last visited Aug. 4, 2022), https://www.energy.gov/lpo/title-xvii/title-xvii-project-eligibility.

[10] See supra at 1.

[11] Id.

[12] Id.

[13] Neuhauser, Alan, Energy Department office gets an upgrade, Axios (last visited Aug. 4, 2022), https://www.axios.com/2022/03/15/energy-department-lpo-upgrade.