

**Testimony of Frank De Rosa
Chief Executive Officer
NextLight Renewable Power, LLC**

Before the

**Select Committee on Energy Independence and Global Warming
United States House of Representatives**

September 24, 2009

Thank you, Chairman Markey, Ranking Member Sensenbrenner, Members of the Committee. I am Frank De Rosa, Chief Executive Officer of NextLight Renewable Power, headquartered in San Francisco, California. Thank you for the opportunity to appear today before the Committee to offer my views on the progress and challenges of NextLight in our development of utility-scale solar energy projects in the western United States. Our large development projects are on the scale of traditional power plants, are designed to provide utilities with reliable and efficient solar power under long-term sale contracts, and will make a substantial contribution to the important state and federal goals of increasing our nation's use of renewable energy.

NextLight Renewable Power

NextLight's mission is to develop competitively priced, utility-scale renewable generating facilities using proven solar technologies. Our expertise is in the utility energy market and in siting, permitting, constructing, owning and operating power plants. We are not a technology company and do not promote the adoption of any particular solar technology. We apply the best solar application to the needs of our utility customers and the particular characteristics of our project locations.

NextLight's solar development program is funded by Energy Capital Partners, a private equity fund focused on investing in North America's energy infrastructure. Energy Capital Partners has a high quality diversified investor base consisting of over 120 limited partners from

public employee pension funds, union pension funds, college and university endowments, foundations and others.

NextLight personnel understand the permitting, environmental and commercial realities of developing and financing large power projects. At various times in our careers, we have been on both the buy and sell sides of electric power plant development. In roles with electric utility and independent power plant development companies, my colleagues and I have procured over 3,000 MW of renewable energy and have developed, permitted and constructed over 8,000 MW of electric power generation in the West.

Since its inception in 2007, NextLight has sited and commenced permitting of over 1,000 MW of solar power projects in California, Nevada, Arizona and the West (see Attachment 1 for map of NextLight’s projects in development). We expect to begin construction and start delivering power from some of these in 2010. NextLight’s major projects are:

California	AV Solar Ranch 1	230 MW Photovoltaic (PV) project with a Power Purchase Agreement with PG&E
Nevada	Silver State	250 MW PV project that was selected by the U.S. Bureau of Land Management for “fast track” permitting status (see Attachment 2, BLM press release)
Nevada	Boulder City	150 MW PV project located in the City of Boulder City Solar Enterprise Zone.
Arizona	Agua Caliente	290 MW project that has received its preliminary state permits for either PV or solar thermal trough technology.

These four projects would satisfy the electricity needs of approximately 350,000 homes, employ 1,500 people in construction and 100 in operations, and represent a capital investment of over \$3.5 billion.

Solar Energy Development Requires Efficient and Effective Capital

I have three main points today:

1. Restore the \$2 billion appropriation that was used for the Cash for Clunkers Program back to the Department of Energy's Section 1705 Loan Guarantee Program authorized in the American Recovery and Reinvestment Act;
2. Extend the Treasury Department's grant program in lieu of the investment tax credit for renewable energy property beyond the current December 31, 2010 expiration date;
3. Provide for an effective long-term financing program for renewable energy power projects, such as the Clean Energy Deployment Administration (the "Green Bank") as proposed in both H.R. 2454 and S. 1462.

Why do we need these programs?

The immediate need to address climate change and improve our nation's energy security has been well documented by this Committee. Currently, the biggest obstacle to wider deployment of renewable energy resources is not permitting or transmission, though those are definitely challenging, but the up-front capital cost of renewable energy projects. Because the cost of carbon emissions has not been incorporated into the price of fossil generation, such generation appears cheaper than renewable energy. Not surprisingly, utilities try to keep their rates as low as possible. Thus, renewable energy appears to be more expensive. Reducing the up-front cost of renewable generation will close the gap between fossil fuels and renewables and thus increase utilities' procurement of renewable resources.

Renewable energy facilities like solar and wind are very capital intensive. Think of the up-front capital cost as a pre-payment for fuel. Thus, the cost of capital is the single most important factor in the overall cost of renewable energy. Financing mechanisms that are efficient and can lower the cost of capital to renewable projects will be the biggest drivers to their deployment.

The DOE Loan Guarantee Program

Until the financial disruptions of 2008, private lending markets provided the debt financing required for renewable energy projects. While NextLight has considerable expertise in accessing the project finance lending market and maintains regular dialogue with participants in this market, it is unclear when traditional financing options will return. To bridge the gap, Congress provided funding in the Recovery Act for a DOE loan guarantee program to support innovative and commercial renewable energy technologies and transmission. DOE is committed to implementing this program on a meaningful scale in a manner that protects taxpayers from undue risk.

In August, one-third of this funding -- \$2 billion -- was transferred out of the DOE budget to provide supplemental appropriations for the "Cash for Clunkers" program (see P.L. 111-47). Restoring the \$2 billion appropriation to DOE will support an estimated \$20 billion in private investment and create thousands of new jobs. The Administration and Congressional leadership have publicly committed to restoring these funds. I urge immediate action to accomplish this goal.

Also, I request that the current date of September 30, 2011, by which a project must commence construction to qualify for a loan guarantee, be extended by at least a year. We would also ask that in fiscal year 2011 at least \$3 billion be appropriated to continue the Section 1705 temporary loan guarantee program, because the private capital markets will not fully recover until at least 2012. While DOE has been working diligently to coordinate with other federal agencies involved in the Loan Guarantee Program and has been seeking input on program design from renewable developers and private lending institutions, the initial DOE solicitation for innovative renewable technologies has only recently been available and the solicitation for commercial technologies has still not been issued.¹ It should also be noted that Loan Guarantee Program projects are subject to the requirements of the National Environmental Policy Act (NEPA), which can take more than 18 months to satisfy if an environmental impact statement is required. Thus, NEPA compliance could prevent a renewable project from starting construction by the current September, 2011 deadline.

¹ See Loan Guarantee Solicitation Announcement, DE-FOA-0000140, July 29, 2009, <http://www.lgprogram.energy.gov/2009-ren-energy-sol.pdf>

The Treasury Department's Grant In Lieu of Tax Credits Program

While investment tax credits have been a mainstay of financing solar energy resources, this mechanism is not efficient. Its effectiveness has been subject to the availability of tax equity investment capital. Since last year, little tax equity has been available at any price.²

Moreover, investment tax credit causes leakage; not every dollar of taxes provided by the federal government goes to renewable energy projects. That is because development companies such as NextLight can only utilize the investment tax by adding a third party (the tax equity investor) through complicated financing structures (leveraged leases, equity flips, etc.). The tax equity investor requires a premium to participate in the transaction (that is, it charges the project developer more than \$1 for every \$1 of tax offset), and the complicated financing structures entail significant transaction costs.

As you know, the Recovery Act provided renewable project developers with the option to receive a cash grant from the Treasury Department in lieu of the investment tax credit. Congress assumed that the tax equity markets recover by 2011, and therefore the grant program was only authorized for projects that commence construction on or before December 31, 2010. The delays in implementing the DOE's loan guarantee program and the length of time to get a loan will make it difficult for projects to begin construction in time to qualify. The grant program in lieu of the investment tax credit sends every government dollar directly to renewable projects. The federal government gets its money's worth. We request that it be extended to match the expiration of the investment tax credit program for renewables.

A "Green Bank" Will Lower the Cost of Capital

The Clean Energy Deployment Administration (CEDA), or Green Bank, is an important part of the American Clean Energy and Security Act of 2009 (ACES) as passed out of the House on June 26. There are also provisions to establish CEDA in the American Clean Energy Leadership Act (ACELA) that Senators Bingaman and Murkowski have passed out of the Senate Energy and Natural Resources Committee.

² In 2008 there were 20 players in the tax equity market. In 2009, that pool has shrunk to five.

By providing loans and loan guarantees at federal treasury interest rates, the Green Bank would lower the cost of financing debt to renewable power projects by 2-4 percentage points. That translates into a busbar electric price reduction of approximately 4 cents per kwh for a typical solar project. This would directly address the biggest obstacle to expanded deployment of renewable generation: the cost to utilities. The Green Bank would provide loans and loan guarantees at minimal risk to the taxpayer. The Green Bank would lend overwhelmingly to projects with a proven history of effective deployment. The default rates on such projects are extremely low and, even under the most cautious assumptions, the prospective default rate would be roughly 10%. This means under a very cautious projection the risk to the taxpayer is roughly 10% of the overall capitalization. The Green Bank would see the loans and loan guarantees repaid in the vast majority of the projects, which means the taxpayer will be exposed to minimal levels of risk.

The Green Bank is modeled after federal corporations with proven track records, such as the Export-Import Bank and the Overseas Private Investment Corporation. It would be a wholesale, non-profit corporation wholly owned by the government and accountable to Congress. It is a very low-cost way to generate the financing for large volumes of renewable power without materially affecting utility rates and disrupting today's economy. Establishment of a Green Bank would be a significant commitment to moving our energy supply – and our economy – toward clean, domestically-produced sources of energy.

Conclusion

The biggest obstacle to the deployment of large volumes of renewable energy is the up-front cost of these capital-intensive projects. Congress can materially reduce that cost without significant taxpayer expenditures by enacting the three measures described above.

Thank you.