

Renewable Energy and Energy Efficiency Advisory Committee, *Charter IV*, Recommendation Fact Sheet

Recommendation #3 (Approved July 27, 2017):

We recommend that the Secretary work with the Administration to facilitate the creation of a new U.S. Export-Import Bank (EXIM) program, Energy Export Express (E3), to improve access for small- and medium-sized enterprises (SME) and other exporters to project financing for energy projects of up to \$50 million.

Sub-Committee: Finance

Background Information:

The REEEAC IV members appreciate Secretary Ross's April 12, 2017 letter in response to our previous recommendations for ongoing support and maintenance at full strength for EXIM, the U.S. Overseas Private Investment Corporation (OPIC) and U.S. Trade and Development Agency (USTDA). We note that EXIM still does not have board quorum, but hope that this highly problematic situation will be remedied as soon as possible. Our members, and hundreds of others, have pending deals at EXIM worth upwards of \$30 billion that are awaiting board approval. The pending export transactions represent 200,000 new (or preserved) U.S. jobs.

In anticipation of EXIM obtaining a board quorum through the confirmation of a Chairman and new Director(s), we turn our attention to ideas to ensure the long-term usefulness of EXIM to our industry and U.S. energy exporters as a whole. In particular, we considered how EXIM can better serve SMEs and other exporters that have smaller energy projects. Our goal is to support the growth in U.S. jobs and manufacturing, where 66 percent of jobs created in the U.S. since 1995 have been created by small enterprises.

EXIM has traditionally been competitive and efficient in helping U.S. SME exporters with working capital lines of credit and short- and medium-term export financing so long as their customers/borrowers have had blue-chip creditworthiness. EXIM has also been able to underwrite large energy transactions on a project finance basis (where the underwriting is not based on a pre-existing balance sheet but the cash flows of a new project) such as liquefied natural gas terminals and utility-scale renewable and conventional power generation projects.

However, exporters have found it difficult to access EXIM project financing (i.e., cash flow based lending with limited recourse to sponsors) for small- and medium-sized transactions, where the requested loan size is up to \$50 million. The reason is that project finance transactions are labor intensive and, therefore, given its limited staff resources, EXIM has tended to focus on the larger deals.

Transaction costs – in particular, fees for outside legal and other consultants working for EXIM – also tend to overwhelm smaller project financings. As a result, U.S. renewable (and other) energy exporters have been at a competitive disadvantage because of their inability to offer project financing in bid and other situations. Competitor foreign export credit agencies (ECAs) have been much nimbler in underwriting small- and medium-sized energy projects and have shown greater flexibility in offering competitive terms.

Recommendation Detail:

REEEAC recommends that the Secretary work with the White House and in his capacity as an *ex-officio* Director of EXIM to facilitate the creation of a new program at EXIM: **Energy Export**

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Express, or E3. We envision E3 as a new unit either within Structured and Project Finance Groups, or reporting directly to EXIM's Senior Vice President for Export Finance, with dedicated staff that will be responsible for smaller-scale energy project and structured finance loans of up to \$50 million.

All energy financings will qualify for E3 including renewable energy, energy efficiency, battery storage, transmission and distribution, and thermal projects. If the program is successful, it can be expanded to other sectors such as transportation and oil & gas, and ultimately EXIM may form a SME finance group to handle structured finance transactions. (OPIC, for example, has an SME finance division.) The current Office of Small Business (OSB) will continue to handle working capital guarantees and traditional export finance transactions and E3 and OSB can eventually be form a new SME group.

The goal of E3 will be to facilitate the exporting activities of U.S. SME and larger energy companies through *greater risk appetite in underwriting, expedited approval processes, lower costs, and flexible terms* for smaller project financings. We discuss these in turn:

- *Risk appetite.* With input from the private sector, E3 will develop credit underwriting standards that are prudent and world class and yet reflect a higher level of risk tolerance given the smaller per-deal exposure. The group will be empowered to find the best structure for each transaction: project (limited recourse) will be the basic underwriting approach as augmented by limited sponsor guarantees and other mechanisms. E3 will support advanced yet proven U.S. technologies.
- *Expedited approvals.* With input from the private sector, E3 will create underwriting guidelines, a simplified application form, standardized loan documents, and streamlined processes from customer inquiry through to disbursement and monitoring. EXIM will offer direct loans under E3 to speed up deployment and reduce costs. EXIM will also consider underwriting multiple smaller transactions on a bundled basis, e.g., multiple solar rooftop sites can be aggregated and underwritten as a single loan.
- *Lower costs.* There will not be a fee for submitting a project concept note. Upon discussion and initial review, EXIM will request full application packages for promising transactions. Upon receipt, EXIM will charge a one-off underwriting fee based on the size and complexity of transaction of up to approximately \$250,000 with a median of about \$100,000. The fee will pay for all internal costs, EXIM due diligence travel, and use of any external advisors.
- *Flexible terms.* EXIM will have the flexibility to offer standard OECD or market-window terms when justified. EXIM should be encouraged to use E3 to revisit its rules regarding content and use of U.S.-flagged vessels to reduce paperwork, cost, and delays while still ensuring sufficient U.S. value addition. Thus, E3 can serve as a proving ground for new ideas and more flexible approaches at EXIM.

E3 will have a dedicated, empowered and integrated team of business development specialists, underwriters, and credit specialists. The program will identify outside private-sector financial and legal advisors to support EXIM staff without the usual delays in contracting dedicated advisors deal by deal.

The REEEAC is available to discuss this concept in more detail and will be pleased to work with the EXIM leadership to develop it further.

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Expected Impact on Export Competitiveness: Increase RE&EE exports through increased EXIM project financing for small- to medium- size energy projects.

Specific Agencies Responsible for Implementation: EXIM

Metric to Track Success:

1. Increased RE&EE transaction volume (number of transactions and loans booked) through EXIM.
2. New and first-time exporters and EXIM users.
3. Greater engagement of U.S. SMEs
4. Low default ratios.
5. EXIM surpluses returned annually to the U.S. Treasury for deficit reduction.