Proposed Product Costs for Advance Technology Vehicles

Background

The statute lays out general categories of costs that are eligible for consideration in processing loan applications. These costs are generally defined as:

(1) reequipping, expanding, or establishing a manufacturing facility in the United States to produce-

(A) qualifying advanced technology vehicles; or

(B) Qualifying Components; and

(2) Engineering Integration Costs performed in the United States for qualifying advanced Technology Vehicles and qualifying components.

These categories are broad and require more detailed definition in the Interim Final Rule in order to provide specific guidance to applicants on what costs can be included in a loan application. This will avoid misunderstandings between the applicant and DOE over what specific costs are eligible for loans.

Eligible cost

The IFR must translate these statutory definitions into specific items and consist of all costs to create and manufacture advanced technology vehicles. These include the following:

(1) Costs of equipment purchases;

(2) Costs of vehicle and component design, engineering integration, tooling design, tooling, facilities, information technology, startup, and launch;

(3) Costs incurred for incremental steps directly related to the production of an Advanced Technology Vehicle or Qualifying Component;

(4) A reasonable contingency reserve for cost overruns during vehicle design, component design, tooling, startup and launch, and facility construction;

(5) Costs associated with the acquisition, lease, or rental of real property, including engineering fees, surveys, title insurance, recording fees, and legal fees incurred in connection with land acquisition, lease or rental, site improvements, site restoration, access roads, and fencing;

(6) Costs associated with the engineering, architectural, legal and bond fees, and insurance paid in connection with construction of the manufacturing facility; and materials, labor, services, travel and transportation for facility design, construction, and startup;

(7) Costs to provide equipment, facilities, and services related to safety and environmental protection;

(8) Financial and legal services costs, including other professional services and fees necessary to obtain required licenses and permits and to prepare environmental reports and data;

(9) Costs of necessary and appropriate insurance and bonds of all types;

(10) Costs of obtaining licenses to intellectual property necessary to design, construct, and operate the products;

(11) Interest costs incurred during product development, including product launch;

(12) Costs consistent with 48 C.F.R. part 31 (Cost Principles); and

(13) Other necessary and reasonable costs such as overhead.

All of these costs are integral to the success of developing and implementing vehicle programs. DOE needs to use a broad interpretation of costs and avoid segregating an advanced technology vehicle into various and separate pieces.

Incremental Changes

To be consistent with the vehicle development cycles, cost associated with changes made over several years must be eligible for loan funding. Automakers implement a multitude of advance technologies to improve fuel economy and must incorporate these changes incrementally over time. In the end, it is the sum of all of these technologies implemented over multiple programs that will enable the advance technology vehicle to achieve a fuel economy that is 125% of the baseline, rather than just the last technology added. The costs associated with all of these changes must be eligible for loans.

To do otherwise would give manufacturers the perverse incentive to put in the highest-cost technologies last to ensure that those costs were eligible for loans. Not surprisingly, high-cost technologies often offer the greatest fuel-economy improvement (batteries are the most prominent example). A program that only covered the cost of technologies that brought a vehicle to the 125% goal could delay, rather than accelerate, the introduction of fuel-saving technology.

Advantages

The advantages of clearly defining costs that are eligible for loans under section 136 include:

- establishing clear boundaries on what costs are eligible for loans thereby reducing the time needed for an applicant to prepare an application for DOE to review and approve it,
- facilitating the preparation and negotiation of borrower term sheets and the subsequent borrower loan agreement documents
- minimizing future audit costs to borrowers and to DOE
- minimizing disagreements over costs between borrowers and DOE and between DOE and other involved federal agencies.