Insight: Delays dog U.S. government loans to green energy projects

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(Reuters) - A year after the U.S. government raced to meet a deadline to finish loan agreements with dozens of clean energy companies, less than half the total money promised has been handed over.

Technical questions and companies' own failures in hitting contractual milestones are behind some of the holdups.

But government officials fearful of taking a risk on firms that could collapse may have also caused some of the delays. The political firestorm after the failure of Solyndra, a solar panel maker that went bankrupt last year after receiving more than $527 million in a government loan, may have made the authorities wary, industry experts and investors say.

The Energy Department and some companies say the pace of disbursement reflects an appropriately cautious approach to handling taxpayer investment in nascent industries. In some cases, though, the rigid approval process for drawing on loans has frustrated recipients, who feel the government is withholding cash due to minor setbacks.

A Reuters analysis of Treasury Department data on payments to 19 solar, wind and geothermal power projects of the 26 in the Energy Department's portfolio shows that the pace at which funds have been released has been slow and uneven. Funding for the other seven loans, amounting to a combined $5.6 billion, comes from private lenders, with the Energy Department guaranteeing 80 percent of the principal. The department declined to discuss these loan disbursements.

(For a graphic, see link.reuters.com/ped92t [1])

The Treasury Department data provides a glimpse into how things are faring for the program, which the Obama administration hailed as a major job creator that would help wean the United States off its dependence on foreign sources of fossil fuels. The program was crafted during the Bush administration but funded as part of the 2009 economic stimulus.

"One of the things it tells you is that the program became highly politicized and it gridlocked the process of doling out money," said Theodore O'Neill of Litchfield Hills Research, after seeing the results of the Reuters review.

The Solyndra failure has become a stock part of stump speeches leading up the November 6 U.S. elections, including those of Republican presidential candidate Mitt Romney, who argues that the government should not be in the business of picking winners and losers. He says Washington is not good at it, and should not put taxpayer money at risk in the process.

Only 47 percent of the total approved funding, or $4.9 billion, had gone out the door by August 31 for the 19 projects receiving their loans directly from the Federal Financing Bank, a division of the Treasury Department.

Four projects have not received any of their promised funding, including two solar manufacturing projects that O'Neill and other analysts say have only faint hope of reaching viable commercial production because of stiff competition from China [2]. Another five projects have received less than half the loan funds that were pledged.

Some projects have seen disbursements withheld until they meet contract milestones with the Energy Department, which approves the payments.

"Whatever it is, things are not going right with their original investment," said Jim Nelson, a solar cell entrepreneur who had a long career in private equity, including working at Bain and Co with Romney.

For critics like Nelson, the slow pace of loan disbursement is one more sign that the government is not an efficient financier. He said he does not expect his company, Solar 3D, to need government help to commercialize its technology.

AWKWARD PARTNER

Renewable energy projects in general have been hurt by low natural gas prices, uncertainty about federal tax credits, and the failure of Congress to legislate a federal mandate for using solar, wind and geothermal power.

Loan recipients also faced more government scrutiny after the failure of Solyndra, which received monthly payments right up until seven days before it shut its doors.

Since then, the government has withheld money for projects with signs of technical problems. But that can lead to a "downward spiral," said one private investor familiar with some of the projects.

Without the money, the companies can't fix the problems - and unless they are resolved, it is difficult for the firms to seek additional private capital they need to keep going, the investor said.

Earlier this year, a geothermal project at a hot springs in eastern Oregon ran into technical issues.

An injection well U.S. Geothermal had drilled was performing below expectations, and before the Energy Department would release regular monthly disbursements, the company needed to show it had equity to cover additional drilling costs.

"We found ourselves responding to a significant amount of questions" from the government, said U.S. Geothermal's CEO Daniel Kunz, noting that the delay meant one small local contractor had trouble paying employees.

U.S. Geothermal went without monthly disbursements again in June and July because of government questions about a single $100 invoice that held up more than $7 million in payments.

"They got into some real minute issues, and they're entitled to do that," said Kunz, who stressed that he was grateful for the loan.

When it came to the additional drilling costs, U.S. Geothermal turned to its equity partner, Enbridge Inc, a Canadian pipeline company and original investor. Enbridge kicked in an extra $6 million in exchange for hiking in its ownership stake from 27 percent to 40 percent.

Kunz expects the project will be producing power, which it will sell under a long-term sales contract, by the year's end.

Abound Solar was not as fortunate. After receiving 17 percent of its $400 million government loan, the solar panel manufacturer's payments were cut off by the Energy Department in August last year because panel prices had collapsed.

"While we understood the increasing market risks driving this decision, and understood the technical justifications in the loan documents, we also knew that it put enormous financial strain on our small company," Chief Executive Craig Witsoe told lawmakers in July, shortly after Abound filed for bankruptcy.

CAUTIOUS PACE

More than 12 percent of the money that has been handed out by the Treasury so far went to Solyndra, Abound and Beacon Power, an energy storage project that also later filed for bankruptcy.

Kevin Smith, CEO of Santa Monica, California-based SolarReserve, worries that all the loan projects are getting unfairly characterized as duds to score political points.

SolarReserve got a $737 million loan guarantee for a solar plant in Nevada, the largest of its type in the world.

"To use these short-term successes and failures to play politics is just too dangerous for us as a nation," he said, adding that there should be a long-term view on the need to move away from fossil-based fuels.

Smith said he considered the government's cautious pace of loan disbursement appropriate. "The level of scrutiny by the Department of Energy and their advisors is at a much higher level than you would see in commercial project finance [3]."

For the 19 projects covered in the Treasury Department data, the Energy Department declined to comment on whether there are targets or goals for getting the $5.1 billion remaining in promised loans released.

"The portfolio has been thoroughly evaluated by independent experts who determined that our practice of ensuring loan recipients can only access loan funds gradually as they meet financial and construction milestones is an important protection for the taxpayers," Damien LaVera, an Energy Department spokesman, said in an e-mailed statement.

"In some cases, the agreements specifically require significant portions of the equity in a project to be raised before any loan funds can be disbursed," LaVera said.

NO MONEY YET

Four projects promised Treasury Department loans have yet to see any disbursements, including Abengoa's cellulosic ethanol plant in Kansas.

Abengoa's executive vice president, Chris Standlee, said he expects the ethanol project to begin drawing on the loan soon. Its plant has been under construction for a year, and the terms of the loan require that it use its own equity first.

Another company still waiting to tap its $197 million loan, SoloPower, opened a solar panel manufacturing plant in Portland, Oregon last week.

The company can begin to tap funds once it has its first production line up and running, and meets other undisclosed milestones. SoloPower's chief executive Tim Harris said he believes his firm underwent a more rigorous review than Solyndra.

"Our initial due diligence was 14,000 pages," Harris said. "I call us the most heavily due-diligenced company in the world. It sure feels that way."

HUNDREDS OF MILESTONES

SolarReserve's power plant in Nevada has about 200 milestones for which paperwork must be submitted to the Energy Department. The Crescent Dunes plant will use thousands of mirrors to reflect sunlight onto a tower of molten salt, where heat will be stored until it is needed to create power.

The project is a year into its 30-month construction schedule. By the end of August, it had received only 21 percent of its loan, which CEO Smith said reflected the typical pace of building a plant.

Most of the early project work focused on engineering and procurement, Smith said in an interview. But Crescent Dunes will soon enter the most cash-intensive part of construction and in the next few months, employment will jump from 220 to about 600.

While Smith said his funding was on schedule, he said the government did not move as swiftly as a private-sector lender because it required more documentation and had more levels of review.

It took two years to finalize the loan guarantee, a process that in the private sector would take six to eight months.

Still, Smith said the program filled a "commercialization gap" for an emerging industry struggling to find lenders after the 2008 financial crisis. "Trying to finance that ... two years ago when we were still in the heart of economic downturn was virtually impossible," he said.

(Additional reporting by Nichola Groom in Los Angeles; Editing by Martin Howell, Karey Wutkowski and David Brunnstrom)

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[1] http://link.reuters.com/ped92t
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