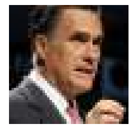
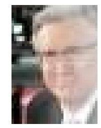
Graver: Gillibrand's Challengers

Woodruff: Back to School for Daniels

Deavel: Capitalism Is Good and Good for You



Trinko: Romney and the Latinos



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The Corner

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Green Energy Loans: Beyond the Solyndra Drama

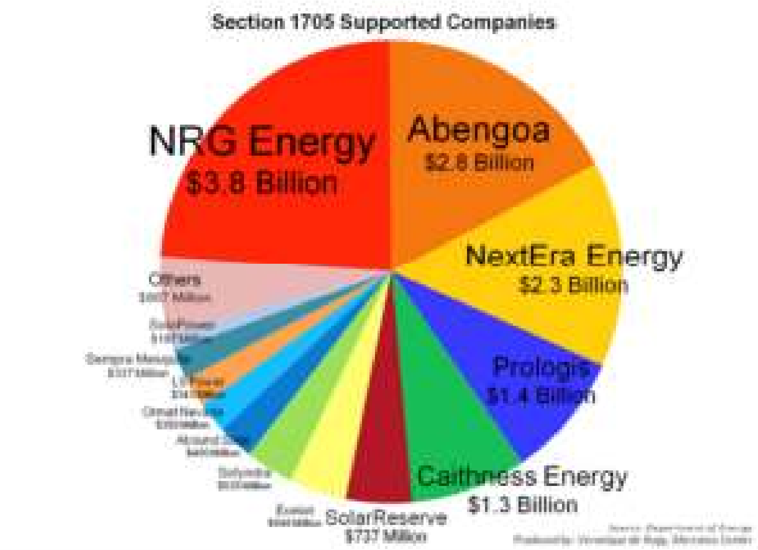
By Veronique de Rugy

Comments 1

June 22, 2012 3:47 P.M.

I testified before Congress earlier this week about the Section 1705 loan guarantee program of the Department of Energy. That's the loan program that guaranteed $538 million in loans for the now-bankrupt energy company Solyndra. I came strongly against these DOE loan-guarantee programs because, among other reasons, they introduce distortions to market signal. For the record, I think all loan guarantee programs by the government should be abolished — not just energy.

It's interesting to look at the flow of Department of Energy loans to evaluate who receives them and whether the department is meeting its stated policy objectives, such as promoting new start-ups or companies that have a hard time accessing capital, and encouraging the creation of green jobs.



Since 2009, Department of Energy has guaranteed $34.7 billion in loans, 46 percent through the 1705 loan program, 30 percent through the 1703 program, and 14 percent through the Advanced Technology Vehicles Manufacturing loan program.

The data show that:

- 26 projects were funded under the 1705 program, with guarantees of roughly $16 billion in total.
- Some 2,378 permanent jobs were claimed to be created under the program. This works out to a taxpayer exposure of $6.7 million per job.
- The recipient of the most 1705 loans is NRG Energy, Inc. NRG Energy received a $3.8 billion guarantee (23.7 percent of the overall amount guaranteed under 1705).
- Four companies received 64 percent, or $10.3 billion, of the total amount guaranteed under the 1705 program.
- 90 percent of loans went to subsidize large and well-established companies

In most cases it's not start-ups, like Solyndra, that received the loan guarantees, but large established companies that are likely able to get access to large amounts of capital. It wouldn't be under the extremely favorable terms that the government guarantee allows them to get, but they would get capital. Also, they would likely have to put down more equity relative to debt than they do with the 1705 loan program. In other words, the program encourages these large companies to leverage more than the open market would allow them to. I thought we had learned the hard way that too much leverage isn't a good thing, but apparently not.

More important, in the process of looking into these loans, I realized the level of double -dipping that these companies are involved in, too. As I explained in my testimony:

> For instance, in addition to the $538 million it received under the 1705 loan program, Solyndra benefited from a $10.3 million loan guarantee that the Ex-Im Bank extended to a Belgian company (described in the Ex-Im deal data as "Zellik Ii Bvba") to finance a sale of Solyndra products.
>
> Solyndra isn't alone. First Solar's Antelope Valley project received a $646 million 1705 loan in 2011 through its partner Exelon, and per my calculation from the Ex-IM Bank FOIA deal data information for

> FY2011,[16] the com- pany also scored $547.7 million in loan guarantees to subsidize the sale of solar panels to solar farms abroad.
>
> More troubling is the fact that some of the Ex-Im money went to a Canadian company named St. Clair Solar, which is a wholly owned subsidiary of First Solar. St. Clair Solar received a total of $192.9 million broken into two loans to buy solar panels from First Solar. In other words, the company received a loan to buy solar panels from itself. Incidentally, First Solar also received a $16.3 million loan from the government in 2010 to expand its factory in Ohio.

But then there is the case of NRG Energy. The company received a $3.8 billion guarantee and, throughout different companies, received 39 different grants under the Recovery Act. It is also scheduled to receive $431 million from the Department of Treasury along with multiple different benefits are the state and local level.

Examples of companies benefiting from multiple assistance programs initiated during this period abound.

While there is no doubt that the deals are lucrative for the companies involved, taxpayers have a lot to lose. Further, double-dipping provides evidence that businesses will be tempted to steer away from productive value creation for society and instead work on narrowly serving political interests for financial gain.

My testimony is here, and here is the video. I was testifying next to four CEOs, including the head of NRG Energy. There was also serious questioning about why Congentrix, a wholly-owned subsidiary of financial giant Goldman Sachs, needs the help of government and political influence.