

Lights go dim on another energy project

Geothermal losses pile up

By Chuck Neubauer

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A geothermal energy company with a \$98.5 million loan guarantee from the Obama administration for an alternative energy project in Nevada — which received hearty endorsements from Energy Secretary Steven Chu and Senate Majority Leader Harry Reid — faces financial problems, and the company's auditors have questioned whether it can stay in business.

Much like Solyndra LLC, a California solar-panel manufacturer with a \$535 million federal loan guarantee that went bankrupt, Nevada Geothermal Power (NGP) has incurred \$98 million in net losses over the past several years, has substantial debts and does not generate enough cash from its current operations after debt-service costs, an internal audit said.

"The company's ability to continue as a going concern is dependent on its available cash and its ability to continue to raise funds to support corporate operations and the development of other properties," NGP auditors said in a financial statement for the period ending March 31.

"Consequently, material uncertainties exist which cast significant doubt upon the company's ability to continue as a going concern," the statement said.

Mr. Reid, a Nevada Democrat who led passage of the \$814 billion stimulus bill and worked to include the loan guarantee program to help finance clean-energy projects, predicted in 2010 that NGP

would “put Nevadans to work” and declared that Nevada was the “Saudi Arabia of geothermal energy.”

Mr. Chu celebrated NGP’s potential in his June 2010 announcement of the loan guarantee, saying the federal government’s support of the company demonstrated its commitment to geothermal power to achieve the nation’s clean-energy goals.

But Rep. Jim Jordan, Ohio Republican and chairman of the House Oversight and Government Reform subcommittee on regulatory affairs, stimulus oversight and government spending, is concerned about NGP’s finances and the timing of the loan guarantee.

“The company was in danger of defaulting on its financial obligation, and the [Department of Energy’s] assistance served as a de facto bailout,” Mr. Jordan said. “After receiving a taxpayer-backed \$98.5 million loan guarantee, the company is still struggling.”

He said the loan guarantee “essentially served to prop up an already-faltering firm.”

In January, Rep. Darrell E. Issa, California Republican and chairman of the House Oversight and Government Reform Committee, told Mr. Chu that the NGP loan guarantee raised questions about why the Energy Department was investing significant taxpayer resources in a company with well-established financial problems.

‘Save the failing company’

At the time the Energy Department announced its conditional approval of the guarantee, Mr. Issa said NGP would have defaulted on a loan from TCW Asset Management Co., then its primary lender, “had DOE not swooped in to save the failing company with taxpayer money.”

A committee report said the loan did not finance any new construction and “did not help to create a single job.”

During a House hearing in May, Rep. Frank C. Guinta, New Hampshire Republican, asked why NGP needed a government loan in 2010 just a year after it had received financing to get its plant up and running. He said it didn’t sound like a loan but a bailout.

“I don’t see it’s a good practice for the Department of Energy to use taxpayer-subsidized loans to provide to an entity that already has an existing facility,” he said.

Mr. Jordan said the Energy Department handed out more than 20 loan guarantees to companies with an average credit rating of BB-, or “junk status,” meaning they were vulnerable to default if economic or business conditions changed. NPG was rated BB+, which is considered speculative or junk and a step below investment grade.

Mr. Jordan and Mr. Issa have questioned why taxpayer money was “put at such risk.”

Brian D. Fairbank, president and CEO of NGP, defended the company by saying its auditors were required to list all risks the firm faced because its stock is traded publicly. But, he said, NGP is making its payments on its federally backed loan.

“The loan is in good shape. The loan is fully supported,” he said, noting that the federally guaranteed loan went to an NGP subsidiary known as NGP Blue Mountain 1, for which he also serves as president and CEO.

The Energy Department guaranteed nearly \$79 million, or 80 percent of the \$98.5 million loan, financed in 2010 by John Hancock Financial Services. The loan is secured by assets from Blue Mountain 1 and gets paid from revenues generated by a 20-year power purchase agreement with NV Energy (formerly Nevada Power Co.).

“There is no question we benefited from the loan guarantee,” said Mr. Fairbank, adding that it helped them get the Hancock loan 4.14 percent compared with the 14 percent interest rate the company was paying on its existing debt with another lender.

Another loan

Mr. Fairbank acknowledged that NGP is not current on a separate high-interest \$88.4 million loan from a Washington investment firm, which is not backed by the federal government and is subordinate to the federal guaranteed loan — meaning John Hancock and the Energy Department have first claim on Blue Mountain's assets and earnings in a default.

John McIlveen, a stock analyst at Toronto-based Jacob Securities Inc. who monitors NPG, said he did not think the federally guaranteed loan was in trouble because it "holds all the cards." But he said he did not see the subordinate lender "getting out whole."

He said Blue Mountain 1 is not producing as much energy as the company had hoped and needs \$20 million to help increase its capacity, which could be difficult to raise.

Energy Department spokesman Dan Leistikow defended the loan guarantee by saying NGP was continuing to make its loan payments "on time and in full."

Mr. Reid's spokeswoman Kristen Orthman said NGP has received bipartisan support because "programs and incentives for clean energy have helped create jobs and make Nevada a growing leader in geothermal energy production."

Mr. Fairbank denied knowing or lobbying Mr. Reid, but the House Oversight Committee said Ormat Inc., which was paid \$80 million to build NGP's Blue Mountain plant, has "strong ties" to

the senator. It said two former Reid staffers, Kai Anderson and Paul Thomsen, work for Ormat.

NGP said it will hold its annual shareholders meeting July 24 in Vancouver, British Columbia, during which Mr. Fairbank is expected to discuss the firm's debts, a recapitalization plan and steps that have been taken to reduce operating costs, including ending its registration and over-the-counter listings in the United States to eliminate the costs of Securities and Exchange Commission reporting requirements.

Much like NGP, Mr. Chu praised Solyndra after the company was awarded its \$535 million federal loan guarantee, but two years later it filed for bankruptcy. It remains the focus of a criminal investigation by the Justice Department.

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