Biofuels losing government loan option

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PHILIP BRASHER, | Gannett Washington Bureau

- Sioux Falls

Developers of biofuels already have been struggling to attract private investment. Now they'll have even fewer financing options with the sunsetting of the loan guarantee program that financed failed solar-panel maker Solyndra.

Poet LLC of Sioux Falls received final approval last month for a $105 million guaranteed loan from the same Energy Department program to build a plant at Emmetsburg designed to distill ethanol from cobs and other cornfield residue. But the program funded with money from the 2009 economic stimulus package ended Friday, and the prospects for reviving something like the program have been clouded by the scandal surrounding Solyndra.

The California company is the target of several federal investigations looking into how the financing was acquired.

"We're concerned that legislators will try to paint the entire program as a failure, rather than this one loan," said Paul Winter, a spokesman for the Biotechnology Industry Organization.

The Obama administration is counting on next-generation biofuels to reduce the use of fossil fuels and create thousands of jobs in rural areas.

The Agriculture Department still operates a similar guarantee program that was created by the 2008 farm bill, but that program will end next year unless Congress comes up with money to extend it. One of a handful of biofuel projects the USDA has guaranteed financing for has shut down already.

Loan guarantees are vital to biofuel companies as they struggle to find investors for technologies that haven't yet been proven, experts say.

"Until the first wave of these plants are able to get steel in the ground and start producing fuel, they won't be able to test out which of these technologies is the most marketable and effective and establish a real position in the market," said Salo Zelermyer, an energy policy specialist with the Bracewell and Giuliani law firm.

The next-generation biofuels would be made from feedstocks such as crop residue, trees, and perennial grasses that won't compete with food uses as corn now does. But the technology needed to make fuel from the fibrous biomass, known as cellulose, is still being perfected and the refineries needed to do the processing cost far more than conventional corn ethanol distilleries.

The Poet project at Emmetsburg will cost $250 million to produce just 25 million gallons of ethanol a year, one-quarter as much as a typical new corn ethanol plant could make at a fraction of the capital cost. The plant is expected to create 40 jobs not counting construction.

A 2007 law mandated that refiners use advanced biofuels starting in 2010, but production so far has fallen far short of the annual targets.

The law called for refiners to use 500 million gallons of cellulose-based fuel in 2012, but the government estimates that as little as 3.5 million gallons will actually be produced. By 2022, the mandate grows to 16 billion gallons.

Federal loan guarantees were seen as a critical piece for meeting the mandates. But of the 32 alternative energy projects that had received at least conditional approval by last week, just two were for biofuel plants, including Poet's. Solyndra was one of the largest loans at $535 million.

Many biofuel developers complained that they couldn't qualify for the loans because the Energy Department insisted developers have contracts that guarantee prices for their feedstocks or a market for the fuel the facilities produce.

"Biofuels don't work that way," said Wes Bolsen, an executive with Coskata Inc., a cellulosic ethanol developer based in Illinois. So Coskata and some other companies opted for the USDA program even though it required them to find an outside bank willing to provide the loan and lacked a subsidy that lowered the cost of the financing. The Energy Department's guarantee comes with a direct government loan from the U.S. Treasury.

Coskata got a $250 million guarantee from the USDA in January for a project in Alabama that is to turn woody biomass into fuel. The USDA didn't require companies to have purchase contracts for the fuel, relying instead on the fact that the government has required use of the biofuels.

The mandate "is a huge underpinning for our whole industry," said Bolsen.

The USDA program hasn't been without its own problems. Range Fuels, which was awarded a loan guarantee from the department in 2010, shut down its Georgia facility earlier this year. The plant was supposed to make fuel from wood.

The department said in a statement that all of the biofuel projects it has guaranteed, including Range, are current on their loans but that "we continue to work with the lender" on the Range fuels loan. The department is expected to announce additional guarantees by the end of the year.

Critics say the problems some of the projects are having shows why the government should stop underwriting energy projects, including nuclear power, and leave it to private investors.

If investors won't put money into the projects, "it tells they've done due diligence and they don't see profit at the end of that economic rainbow even with government mandates," said Jerry Taylor, who follows energy policy for the Cato Institute, a libertarian think tank.

Not every biofuel project is relying on government financing. Chemical giant DuPont didn't seek a government loan or guarantee for a $200 million cellulosic ethanol project planned at Nevada, Ia.

"It's obviously a business decision and what works best for the business and the project," said spokeswoman Jennifer Hutchins.

DuPont's plan is to license its technology to other companies if the Nevada project proves successful.

Poet also received an $80 million grant from the Energy Department in addition to the loan guarantee. The USDA has provided subsidies to offset the cost of buying the corn cobs and other crop residue from local farmers.

A Poet spokesman did not respond to questions about the terms of the Energy Department financing.