Critics question 'green loans,' but US points to the numbers

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The Department of Energy's loan guarantee program for alternative energy companies has been hit by some high-profile failures.

Yet the agency is sticking by its guns, even as the overall green sector comes under scrutiny, and critics insist the government should not play the role of green venture capitalists.

Last week, the DoE admitted a recipient of a $50 million green loan—Michigan-based Vehicle Production Group—would cost the government $42 million. VPG was forced to lay off hundreds in February, after paying back only $5 million of what the DoE lent it.

Since its creation in 2005, the $34 billion lending program has provided 33 companies with government financing for alternative energy projects. The program has had some high-profile successes. It's helped set up 13 solar energy firms that are actively selling power into the grid.

But failed start-ups—namely Solyndra, Fisker Automotive and First Solar, which all received funds from the green lending program—have left taxpayers in the red.

UK Carbon review scary for green investors: pro

Matthew Spence, director of the Green Alliance, underlines how "flacky" the U.K. government is regarding renewable energies as it might review the U.K.'s carbon targets.

Nonetheless, the DoE defends the government's foray into green venture capital. At his first policy speech in New York last month, Energy Secretary Ernest Moniz called the program's track record "quite remarkable." Moniz touted the DoE's most conspicuous success story—a $465 million loan to Tesla that

was repaid early in May—as evidence that green loans work, even as he said that not every investment would pan out.

In response to questions from CNBC.com, an energy department spokesman said expected losses on funding to VPG, Solyndra and others "only represent about 2 percent of our overall loan program portfolio of approximately $34 billion, and less than 10 percent of the loan loss reserve Congress set aside for the program."

But that won't silence critics of government-funded start-ups.

"Governments are getting out of, not going into, the subsidized alternative energy business," said Pat Michaels, director for the Center for the Study of Science at the Cato Institute, a libertarian think-tank.

Indeed, public investment in clean energy is drying up—a sharp turnaround from just five years ago, when the U.S., Europe and China were locked in a competitive race to fund various wind, solar and nuclear projects. While China remains committed to alternative energy, big loan defaults by Chinese solar companies LDK Solar and Suntech Power have cast a shadow over the solar sector.

Back in the U.S., the world's largest energy consumer shows no signs of ending its reliance on fossil fuels, which even Energy Secretary Moniz acknowledged recently was a "ground truth" unlikely to go away anytime soon.

Critics including Cato's Michaels argue the domestic, fossil-fuels energy boom is all the more reason for the federal government to exit the green-funding business. "The US was slow to come to the [alternative energy] party, and it's going to be slow to leave the party," he said.

Green loans 'a useful tool'; some beg to differ

In spite of some high-profile fumbles, clean energy advocates say government fills an important role for green initiatives.

The Solar Energy Industries Association, a trade group, calls the DoE's loan program a "useful tool" that has helped the solar sector. The SEIA adds DoE funding has helped spur private investment of more than $25 billion that arguably wouldn't have existed without the government's involvement.

Supporters of the program also note bankers often resist offering loans to new, unfamiliar business models. The DoE program is designed, in part at least, to provide models for the private sector to follow.

But a key question is whether funding from the government is even enough? Sunni Beville, a partner in the corporate restructuring division of law firm Brown Rudnick, said there may be a mismatch between the government's expectations of the companies it funds, and the realities of an emerging marketplace.

"They are essentially funding start-up companies that need a longer runaway than what the government gives them," Beville said. "A start-up company has a lot of bumps in the road…[and] when they hit a bump in the road they get their funding pulled."

The long march to profitability means "they need some time to get to that level of producing revenue," Beville said. "It is a matter of timing and I don't think the DoE is always able to act as how a commercial lender would act. And that has dire consequences to the companies."