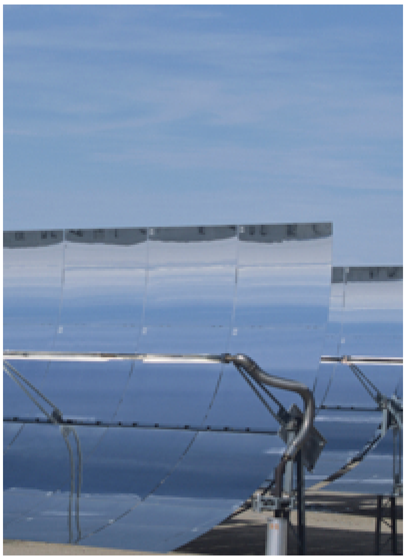
Gaming the System in Clean Energy Development



One of the primary beneficiaries of the rush to feed at the golden trough is David Crane, CEO of NRG Energy, who exclaimed that this was a once-in-a-generation opportunity: "We intend to do as much of this business we can get our hands on. I have never seen anything … in my 20 years in the power industry that involved less risk than these projects. [We are] just filling the desert with [solar] panels."

Crane was joined by Kevin Smith, CEO of SolarReserve, another company enjoying federal subsidies, who said, "It is like building a hotel, where you know in advance you are going to have 100 percent room occupancy for 25 years."

NRG Energy's massive solar panel development, California Valley Solar Ranch, consists of nearly one million solar panels that will, according to proponents, produce enough electricity, on clear days, to power 100,000 homes (at least for a couple of hours each day when the sun is near its peak, and if those numbers aren't being gamed). It also consists of massive subsidies from the federal government, the state of California, and, naturally, increased rates for the taxpayers. According to the *Times*, nearly all of the $1.6 billion project is being subsidized through loans, grants, subsidies, tax abatements, and forced purchases of the electricity by public utilities at higher prices than energy produced by coal or natural gas.

The construction project of $1.6 billion is being covered by a Department of Energy loan guarantee of $1.2 billion, and the Treasury Department is loaning the money to NRG at 3.5 percent instead of the 7 percent NRG would normally have to pay without the guarantees. Booz and Company, hired by the *Times*, estimated that "that support alone is worth about $205 million to NRG over the life of the loan."

The next subsidy comes in the form of an immediate cash disbursement from the Treasury Department of $430 million, which is given to the company instead of having the costs deducted and amortized over the life of the project. According to the Treasury Department, "The Section 1603 program (under the American Recovery and Reinvestment Tax Act – ARRTA) offers renewable energy project developers cash payments in lieu of the investment tax credits. The value of the awards is equivalent to 30% of the project's total eligible cost basis in most cases."

NRG Energy is also getting a lot of help from the state of California. The company will be exempt from paying property taxes to San Luis Obispo County on its solar panels, and California law mandates that public utilities purchase 20 percent (increasing to 33 percent by 2020) of their power from "clean energy sources." Pacific Gas and Electric (PG&E) just came to terms with NRG whereby PG&E will purchase power from NRG for the next 25 years. According to the California Public Utilities Commission, "Deliveries under the HP Ranch III PPA (Power Purchase Agreement) are reasonably priced and fully recoverable in rates over the life of the contract."

Ah, yes, "reasonably priced" indeed. Says the *Times*,

> PG&E, and ultimately its electric customers, will pay NRG $150 to $180 a megawatt-hour … about 50 percent more than the expected market cost of electricity in California from a newly-built gas-powered plant.

By the time all the subsidies, grants, below-market interest rate loans, subsidies, and tax breaks are figured into the equation, NRG will receive $1.4 billion on its $1.6 billion project, "leading to an expected rate of return of 25 percent for the project's equity investors, according to Booz." NRG is only investing $400 million of its own money in the project which it expects to get back within the next two to five years. Everything from there on out is pure profit.

Others riding the gravy train of subsidies include the usual suspects: Goldman Sachs, Morgan Stanley, and General Electric. GE is a case study all by itself, beyond the scope here, but notably lobbying Congress for expansion of these subsidies in 2009 and then profiting, as the *Times* noted, "from every aspect of the boom in renewable-power plant construction. GE is an investor in at least one solar and one wind project which generated about $2 billion in federal loan guarantees and another $1 billion in government grants, and is supplying its turbines to other plants enjoying the ride with public money. A GE spokesman, Andy Katell, said GE was simply "playing ball — it's good for the country and good for our company."

But what about the taxpayer? All of these gifts, grants, subsidies, rate abatements, below-market interest loans, tax forgiveness and mandates are just price-fixing on a grand scale. It forces those who aren't players at the trough to pay for the trough so the players can play. The game is rigged, as it always is when government intervenes.