

Memorandum

To: Robert P. Oglesby
Executive Director

Date : October 14, 2011

Telephone: CALNET (916) 654-4628

From : **California Energy Commission** - PAT PEREZ, Deputy Director,
1516 Ninth Street
Sacramento CA 95814-5512
FUELS AND TRANSPORTATION

Subject: RECOMMENDATION TO APPROVE A \$1,695,000 AUGMENTATION TO THE MORGAN SOLAR INC. CLEAN ENERGY BUSINESS FINANCING PROGRAM LOAN (LOAN NUMBER 008-10-CEB) TO BE CONSIDERED AT THE NOVEMBER 16, 2011 BUSINESS MEETING

Summary of Item

Morgan Solar Inc. was approved at the September 15, 2010 Business Meeting for a \$3,305,000 Clean Energy Business Financing Program (CEBFP) loan to purchase and install equipment to expand the in-state manufacture of concentrated solar photovoltaic panels. Morgan Solar has requested a loan increase to the maximum allowable amount of \$5,000,000 to purchase additional manufacturing equipment to further increase annual production by an estimated 6 megawatts. The additional manufacturing capacity will increase revenue, allowing Morgan Solar to further invest in the Chula Vista, CA area. Additional loan funds are now available since Quantum Fuel Systems Technologies Worldwide, Inc. requested to withdraw from its CEBFP loan agreement in September 2011.

The State Energy Program Guidelines and the CEBFP Program Announcement specify a maximum loan amount of \$5 million.

Justification for Action Requested

Morgan Solar is an eligible CEBFP borrower and has requested additional funding. The CEBFP Announcement states on page 7 that "Eligible highest scoring applications that pass all pass/fail criteria are given first priority for funding based on their point scores." Morgan Solar scored 71 out of 90 on their CEBFP application. They are the third highest scoring awardee out of the five remaining awardees and are the highest scoring awardee requesting additional funding.

Pacific Coast Regional Small Business Development Corporation (PCR) has underwritten both the original Morgan Solar loan and the proposed Morgan Solar loan augmentation. For the augmentation, PCR obtained updated financial information and analyzed cash flow, collateral, and various financial ratios. The analysis determined that projected cash flow could

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satisfactorily service both the original Energy Commission loan and the proposed augmentation. In addition, the analysis determined that there should be sufficient collateral in the event of default. The PCR Loan Committee recommended approval of this augmentation on October 13, 2011, after which PCR recommended the approval of this augmentation in an Action Memorandum addressed to Energy Commission staff.

Project Manager

Marcia Smith, Special Projects Office

Oral Presentation

Staff will be prepared to discuss this recommendation and to respond to questions at the Business Meeting.

Business Meeting Participants

Marcia Smith, Special Projects Office

Jacob Orenberg, Special Projects Office

Commission Action Requested

Approve the CEBFP loan augmentation and authorize the Deputy Director of the Administrative and Financial Management Services Division to execute the loan augmentation.

PAT PEREZ, Deputy Director
FUELS AND TRANSPORTATION DIVISION

Pros:

- Will grow in-state solar energy manufacturing capacity that could be used in Energy Commission programs for renewable energy.
- Staff estimate that the increased annual production enabled by this funding will produce an additional 9,000,000 kWh per year of renewable energy when installed, promoting the Energy Commission's Loading Order.
- Annual production will offset carbon dioxide emissions by an estimated 3,105 tons per year when installed, enabling California to meet the goals of AB 32.

Cons:

- Solar manufacturers nationwide are being closely scrutinized, particularly those with government funding, as a result of bankruptcy of Solyndra. While staff continue to carry out thorough financial due diligence to try to ensure only loans for the strongest projects are approved, risk perception remains high.