

# Solar industry faces head winds but remains hopeful

January 22 2009, By Matt Nauman

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Solar-industry executives paint a bright future for their industry, one where photovoltaic panels adorn roofs of homes and businesses and huge power plants capture the sun's rays to generate electricity. But the industry currently finds itself under cloudy skies and buffeted by threatening winds.

The solar tax credits approved late last year gave the industry a boost, and its leaders are hopeful for an even bigger boost by President Barack Obama, who has promised to promote clean technologies and energy alternatives to oil. But it's far from clear just how much help will come, and when.

Meanwhile, many once-promising solar companies struggle to maintain momentum against the strong head winds of the financial crisis. Feel-good headlines about well-funded startups and new jobs are giving way to grim announcements of factory delays and layoffs.

OptiSolar of Hayward, Calif., announced this month it would lay off half of its 600 employees. The company, which has a contract to produce electricity for Pacific Gas & Electric, blamed its inability to get financing to expand a factory in Sacramento.

"We haven't been able to access the investment capital we were able to get earlier," said Alan Bernheimer, an OptiSolar spokesman. "It's a bitter pill."

OptiSolar's pink slips could be a harbinger of bad news from other companies needing millions of dollars to finance the costs of building factories and huge power plants.

"These companies are going to be large consumers of capital," said Patrick Pohlen, an attorney who works in clean-tech financing at Latham & Watkins in San Francisco. And banks aren't lending right now.

"I liken the solar industry to the semiconductor industry 40 years ago," he said. "What a semiconductor company had to do was build a fab -- a factory -- to make a chip. That's kind of where solar companies are today. And the challenge is that to build a factory requires debt."

OptiSolar is just the latest solar company to come under threat by the bad economy:

- HelioVolt, a Texas maker of thin-film solar panels, opened a 122,000-square-foot factory in Austin three months ago. At that time, the company said it would ultimately employ 160 workers. But it recently announced a round of layoffs, though it wouldn't say how many.
- SpectraWatt, an Intel spinoff, said in June that it had raised \$50 million and would open a plant in Oregon to make photovoltaic cells starting in mid-2009. But according to recent press reports, the company suspended factory construction for six months and threatened to consider building the plant in another state that offers more incentives for green businesses. SpectraWatt did not return an e-mail seeking comment.
- Evergreen Solar, a Massachusetts maker of solar cells, recently closed one of its two factories, which led to layoffs. Other solar companies confirming layoffs include GT Solar, which makes solar equipment in New Hampshire, and SunEdison, a Maryland company that finances and manages solar-electricity projects.

When Congress passed an eight-year extension of the federal investment tax credit on solar projects late last year, an industry-sponsored study said 400,000 jobs would result. Now, according to a representative for the Solar Energy Industries Association, they're not as confident.

"We are concerned the solar ITC will not work to stimulate demand for solar installations as Congress intended, given the current economic climate," Monique Hanis said.

The group, as well as the American Wind Energy Association, now wants the tax credit to be refundable, she said, meaning companies and individuals would get cash back instead of a credit in their tax filings.

"Due to the recession, projects are now being put on hold, factories are closing and workers face potential layoffs unless Congress refines the tax credits now so they work as originally intended," said Rhone Resch, the solar group's president.

Nathaniel Bullard, lead solar-industry analyst with New Energy Finance in Washington, D.C., said financing problems are universal in the clean-tech industry right now, and are especially acute for companies without large orders or ironclad projects. Wind-energy and biofuels companies also are suffering.

And Bullard doesn't expect the financial environment to improve anytime soon. In six months or a year, "it's still going to be rocky for everybody," he said.

Some solar companies will fail and the survivors will retrench, he said, drawing back on some ambitious expansion plans.

Companies already in the regulatory pipeline for plant approval are likely to get financing dollars, Bullard said. But he added that companies

that haven't started seeking approval "might have a hard time."

Many companies need factories to construct the components used to build power plants. That was OptiSolar's situation. With today's credit market, Pohlen said, these firms face "the complete double whammy."

Still, most within the industry remain optimistic -- about the long term, at least.

Many in clean tech assume that the Obama administration, as part of its massive stimulus plan, will create programs to jump-start clean-energy projects, including adding solar systems to federal buildings, schools and military facilities and training workers for green jobs.

Venture capital firms add to the rosy outlook by continuing to pour billions into solar. Researcher GreenTechMedia noted that in the fourth quarter of 2008, VC firms globally invested \$1.3 billion in 28 deals with solar companies. That was more than the amount invested into biofuels, wind energy, energy efficiency and the smart grid and batteries combined.

Alex Klein, research director at Emerging Energy Research in Cambridge, Mass., remains positive about solar's prospects beyond 2009 -- with a caveat.

"Weakened capital markets and low demand will continue to constrain new project investment in 2009," he wrote in a research note. "But the fundamentals for a significant transformation in energy infrastructure \_ and the corresponding investment opportunity \_ over the long term remain sound."

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