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Posted: 7:30 a.m. Sunday, Sept. 2, 2012

Warnings ignored in Range Fuels debacle

By Dan Chapman

The Atlanta Journal-Constitution

It was the weekend before Christmas 2008 and Hosein Shapouri, a senior economist with the U.S. Department of Agriculture in Washington, was ordered to work.

His bosses needed an analysis done quickly of a proposed wood-to-ethanol factory in mid-Georgia. The Bush administration was leaving office the following month, and USDA officials wanted the deal sealed by then, Shapouri surmised.

In a blistering critique obtained by The Atlanta Journal-Constitution, Shapouri labeled the proposed Range Fuels plant "a high risk venture" that should raise "a red flag." Three weeks later, top USDA officials approved the guarantee anyway.

Today, the Georgia plant's failure is well-documented. The Soperton facility closed last year without producing a drop of usable ethanol. Taxpayers lost at least \$75 million.

But an in-depth analysis by the AJC reveals that taxpayer money for Range Fuels was approved despite repeated warnings and strong opposition by some of the federal officials who vetted the project.

Other officials nonetheless favored giving Range access to as much as \$162 million, including \$6.2 million from the state of Georgia, according to documents obtained via the Freedom of Information Act.

Government support for alternative energy has become a hot-button political issue, pitting the promise of energy independence against the prudent use of tax dollars. Both the Bush and Obama administrations strongly supported Range, which was expected to showcase the feasibility of cellulosic ethanol, as did politicians of both parties keen to bring jobs to Georgia.

Washington continues to hand out grants and guarantees for the commercially unproven technology, which attempts to turn wood pulp, not corn, into fuel for cars and trucks. Last month, USDA approved a \$99 million loan guarantee for a North Carolina grass-to-fuel factory.

Critics say giving taxpayer dollars to deep-pocketed corporations and billionaire entrepreneurs like Vinod Khosla, the primary financial backer for Range Fuels, is folly. They liken the Range fiasco to the failure of Solyndra, the solar energy project that received \$535 million in federal guarantees and produced only political heat for the Obama administration.

"Solyndra had a lack of due diligence just as Range Fuels did," said Sam Shelton, founding director of the Strategic Energy Institute at Georgia Tech. "It really hurts me to see Energy and Agriculture department moneys poured down the drain. Government should be involved in a lot of things, but commercialization of technologies isn't one of them."

The documents obtained by the AJC show that three USDA officials who vetted the project approved it. Three opposed it. And three others who made critical comments had their opinions redacted.

Federal officials say they learned valuable lessons from the Range Fuels collapse and have established safeguards to prevent recurrences.

"While the Agency is disappointed that this one company did not succeed ... it is important to remember that USDA has a long history of successful lending that supports rural homeowners, business owners, utilities and cooperatives," the agency said in a statement e-mailed to the AJC. The USDA says the delinquency rate on more than 1 million loans is a scant 2.16 percent, although relatively few involve alternative energy.

Shapouri, now retired, said decision-makers dismissed Range's many, easily detectable faults.

"Nobody ever expected them to produce anything," he said in an interview. "I told them not to finance it. They didn't listen to me. They decided to rush, rush, rush and give them the money."

Push for alternatives

2007 was a heady time for the alternative energy industry, especially cellulosic ethanol projects that promised to turn Georgia's abundance of pine trees into liquid gold while weaning the nation from imported oil and corn-based ethanol. Khosla, the billionaire co-founder of computer giant Sun Microsystems, announced in February the construction of the nation's first pine-scrap-to-ethanol factory in Soperton, about 155 miles southeast of Atlanta.

Three weeks later U.S. Energy Secretary Samuel Bodman unveiled \$385 million in grants to six cellulosic ethanol projects around the country, including \$76 million for Range.

A University of Georgia study estimated the economic impact to struggling Treutlen County at \$106 million a year. Nearly 200 people would find work at the factory, with suppliers and at nearby businesses.

With its lender, AgSouth Farm Credit in Statesboro, the Colorado company applied for an \$80 million loan guarantee via the 2008 Farm bill. Such loan guarantees allow projects to arrange risk-free financing.

Between 2002 and 2006, Range's technology had undergone 12,000 hours of testing in Colorado, using a variety of raw materials and operating conditions, according to the company's feasibility study obtained by the AJC. But Range withheld some details, calling them "proprietary."

Kevin Hicks, a USDA biofuels expert who helped review the loan guarantee, wrote in March 2009 that he and some colleagues didn't have enough information and questioned plowing millions of dollars into so much unproven technology.

"Building a new manufacturing facility with one or two new processes is a risk," the USDA researchers wrote. "Building a new facility with 51 percent new processes presents enormous risk."

Hicks, who declined comment for this article, and colleagues added that "numerous other technical challenges exist." Still, they wrote, the project has "merit and is more advanced in its planning than many of the other second generation biofuel projects to this date." His final opinion was among those redacted.

'Red flag' raised

Even Range backers voiced concerns. Judy Raskind, a USDA rural development official, said in documents obtained by the AJC, "the risks and uncertainties of these still unproven technologies are consequential." Nonetheless, Raskind "strongly recommended" that Range receive the guarantee.

"The opportunities for Range Fuels to be successful are strong," she wrote. The "project is considered by the industry to have the greatest chance for success because of its robust economic viability and strong financial backing."

Georgia officials, for their part, wholeheartedly supported a \$6.2 million grant for the venture, mainly for the purchase of machinery. Treutlen County gave the company nearly 100 acres and tax abatements worth \$33 million.

Yet a September 2007 memo from the Georgia Department of Community Affairs, obtained by the AJC via an open records request, noted that "the research is still years away from being completed and as of yet is unproven."

Some federal scientists suspected Range wouldn't be able to produce any ethanol, only methanol, a cheap and common additive used in plastics, paints, fuel and windshield wiper fluid.

By 2008 Range had scaled back production estimates from 40 million gallons of ethanol and 9 million gallons of methanol a year to

12 million gallons each.

The shift “should raise a red flag to any additional federal funding of the project until the discrepancy is resolved,” Shapouri, the USDA economist, wrote.

Hicks and fellow researchers also predicted that, by the time the federal money ran out, the “plant will probably not make ethanol on an economically viable basis.” Later, the USDA approved the switch-over to majority methanol production.

“That’s when the first alarm bell should’ve gone off,” said Robert Rapier, a chemical engineer whose R-Squared blog is widely read across the energy industry. “They went from promising something that had never been done before to something that was invented a hundred years ago.”

Range’s finances also raised red flags. Anthony Ashby, a USDA loan analyst who opposed the project, said Range lacked “cash flow” and needed more money before proceeding to later production phases, creating “a high level of risk for the government.”

Ben Anderson, one of USDA’s top administrators for rural development programs, said that Range’s financing was “not consistent” with the agency’s lending rules for alternative energy projects.

“The financing structure provides the potential for a larger Federal Government risk and exposure,” Anderson, who also opposed the project, wrote in January 2009.

After missing a production deadline and struggling financially, Range finally raised enough money by February 2010 for USDA to issue the loan guarantee. But technical difficulties plagued the plant throughout the year. A major investor pulled out.

The Soperton factory was mothballed in late 2010. The Energy Department terminated its agreement with Range thereby “reducing future financial risk for the American taxpayers.”

The agency said the final steps in producing usable ethanol “could not be successfully demonstrated with the time and funding available in this project.”

Lessons learned

USDA now requires more technical and financial information before, and after, approval of a loan guarantee.

“Obviously, hindsight is perfect,” said Brian Williamson, deputy commissioner of the Georgia Department of Community Affairs. “If we got the same deal tomorrow, we would use what we experienced from Range and learn from it.”

Another alternative energy company — also backed by Khosla — bought the foreclosed factory for \$5.1 million and plans to produce ethanol via a different method. Williamson said the new company - which is using the taxpayer-funded machinery, but not getting additional aid - expects to one day honor the job-creation goals that triggered Georgia’s grant to Range Fuels.

The breakdown of taxpayer losses includes \$43.6 million from DOE and \$32 million from USDA. Georgia’s loss is \$6.2 million - unless the factory’s new owners succeed.

The Energy and Agriculture departments continue to make loans to still-unproven cellulosic ethanol and other renewable energy ventures. Over the last two years, the agencies have dispensed more than \$500 million in loan guarantees for projects that promise to turn solid waste, animal fat and cooking oil into fuel.

And, in August 2011, the Obama administration announced the investment of \$510 million to produce specialized biofuels to fuel military and civilian planes and vehicles.

Khosla declined comment for this story. Earlier this year, though, he told the AJC, “you have to take risks to do any innovation and have breakthroughs in cost ... The whole role of the Energy Department program was to encourage innovation. People forget that.”

Rapier, the energy expert and Khosla critic, said only scientifically sound projects are worthy of federal funding.

“But if you go out there, and make claims and take taxpayer money and don’t deliver,” he added, “you hurt the ability to raise money for realistic projects and you sour taxpayers on biofuels.”

RANGE FUELS TIMELINE

February 2007 — California dot-com billionaire Vinod Khosla announces the nation’s first wood-to-ethanol plant to be built in Soperton, Ga. The Range Fuels plant also receives \$76 million from U.S. Department of Energy.

November 2007 – Groundbreaking for cellulosic ethanol factory.

December 2008 — Federal researchers and economists review Range’s proposal for an \$80 million loan guarantee from the U.S. Department of Agriculture.

January 2009 — USDA conditionally approves loan guarantee.

February 2010 – USDA fully issues the loan guarantee.

December 2010 – A major investor pulls out. The DOE quits giving money to Range.

January 2011 – Soperton factory ceases operation and Range soon declares bankruptcy.

January 2012 – Foreclosed factory is sold for \$5.1 million.

How we got the story

Dan Chapman has followed the Range Fuels saga ever since the Colorado company announced in early 2007 the construction of an alternative energy factory in mid-Georgia. When the company went bankrupt and closed, the AJC dug deeper into the company's finances and its ability to tap \$600 million in state and federal grants and loans for a variety of alternative energy projects across the country. This year the AJC issued a flurry of open records requests for federal and state documents to understand why Range was given the OK to tap \$162 million. Chapman reviewed more than 2,000 pages of documents.

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- Posted by DevilDogOz at 9:33 a.m. Sep. 2, 2012
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Anyone who honestly believes that government in this nation isn't broken is deluding themselves...



- Posted by Chappy65 at 11:15 a.m. Sep. 2, 2012
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Only in an election year, and typically only about the situations on the wrong side of a publications agenda, do we hear about the gross mismanagement of the USA. We do not elect qualified people with any experience to do complex jobs.

This is how all end of year projects go. If by don't use all of the budget of a given dpt, by year the budget is smaller. This is how depts work in private or corporations too.

Many of the most important findings of science are stumbled upon or a by-product of other research or endeavors. Most govt programs are simply desire to move welth into the pockets of politicians. The same atrocious and unfounded reasoning was used to begin taxing America because, instead of scientific studies that stated the earth was cooling in the 1980's, now flatly asserts its warming, then a bunch of politicians from other countries hungry to devour the wealth of the US and other developed countries devised a scheme to (steal) tax those countries blaming them for the sme environmental conditions that existed prior to the industrial age.

Hokum and theft, and the majority of the citizenry is too busy working to police the wasteful behavior of politicians who either don't know what they are doing or who are actively misappropriating for personal gain.

I'd like a rundown on Eric Holders arming drug lords of Mexico. Obama gives them 1.5 million jobs to illegals aliens during the worst unemployment since the great depression. Did Eric holder arm drug lords of Mexicans for personal gain? How much did it cost? AJC - Print the stuff all year, every year, don't just manipulate voters.



- Posted by dcdcdc at 11:18 a.m. Sep. 2, 2012
- Report Abuse

Amazingly good job making this look like it was all Bush's fault...when the timeline shows the real funding was done well after Obama took office and took over the program. Is it any wonder that the old tire media sources are losing followers....seriously, would probably be a good idea if you guys would wake up to the fact that your readers actually think for themselves, and see through these lame attempts at deflecting blame.



- Posted by Wrecker at 11:28 a.m. Sep. 2, 2012
- Report Abuse

If the ideas were commercially viable, there are plenty of venture capitalists who could fund these alternative energy projects. The government can take stupid, unwarranted risks with our money on projects that the market would not support.



- Posted by dudecrush at 12:24 p.m. Sep. 2, 2012
- Report Abuse

Another failed holdover from the Bush era, just like Solyndra.



- Posted by count_schemula at 1:20 p.m. Sep. 2, 2012
- Report Abuse

\$75M is a lot of bike paths and "complete streets." We reach for the sky and can't even master the basics.



- Posted by pooterguy at 1:24 p.m. Sep. 2, 2012
- Report Abuse

How long until The DOJ Gestapo *neutralizes* the AJC, and how long until The Exposed repeal The Freedom of Information Act?



- Posted by Panthers86 at 2:23 p.m. Sep. 2, 2012
- Report Abuse

This article showcases some good investigative journalism. Note that the author, Dan Chapman, does *not* blame any particular party for this (really) bad investment ... go back and carefully read his 7th paragraph above. Rather, he provides yet another expose of poor governance in action, and showcases how broken and inept some aspects of "government" has become.

It would appear most politicians are just working on getting a "quick buck" for their buddies or themselves while they're in office, with no concern about the consequence of what they're doing.

In this case, the USDA officials called in one of their senior economists in late 2008 to review the proposed investment--obviously hoping he'd give them a rubber stamp endorsement. His (quote) "blistering critique" was not what they expected. Regardless (quote) "top USDA officials approved the guarantee anyway ... Taxpayers lost at least \$75 million."

Fact is, our state, local, & federal legislatures control the "power of the purse" ... both "Authorization" (identifying what the gov't can spend taxpayer \$\$ on), and "Appropriation" (specifying how much the gov't can actually spend). Corporations and private parties help to bankroll our politicians campaigns, expecting return favors to the point where even poor investments get the green light. And when those investments go belly-up, there's very little or (usually) no accountability. No one's fired, sent to jail, or forced to pay fines ... they're not even shamed into apologizing. Everyone just walks away unscathed. Reset. Repeat. Fail again.

Want to help change the situation? Send your favorite local, state, or federal politician a copy of this article, and ask them to: [A] Do their personal best to be (much) better stewards of taxpayer \$\$ than the (educated?) officials involved in supporting this idea; and [B] seek and heed the advice of unbiased experts *before* signing on the dotted line.



- Posted by agrainofsalt at 3:55 p.m. Sep. 2, 2012
- Report Abuse

Thank you AJC for being brave enough to show facts to the coolaid community !! You have me reading the paper again.....actual real JOURNALISM.... they do not care about facts but INDEPENDENTS do !!!!! THANK YOU !!!!



- Posted by dcdcdc at 5:21 p.m. Sep. 2, 2012
- Report Abuse

seriously folks.....most people read the first paragraph or two of any article...and the first mention of the fact that the Obama admin made the actual funding decision was how far down in the article? People who write these articles know exactly what they are doing. Fortunately, again, we have folks who actually think for themselves and no longer just get lead like sheep to the conclusion that biased "reporters" want them to come to.



- Posted by jameschristopherdesmond at 4:17 p.m. Sep. 7, 2012
- Report Abuse

I'm asking this reporter to investigate if, right down the road from Range Fuels, there is yet another biomass boondoggle in the making:

<https://sites.google.com/site/freemarketsolarpower/home/yet-another-biomass-boondoggle>



- Posted by jameschristopherdesmond at 4:18 p.m. Sep. 7, 2012
- Report Abuse

I've also collected research and commentary on subsidizing Solar Power here:

<https://sites.google.com/site/freemarketsolarpower/home>

12 Comment(s)

Comment(s) 1-12 of 12
