

Tesla locks up \$465 million in federal loans, will build battery facility in Bay Area



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With Tuesday's announcement of a \$465 million federal loan to jump-start production of fuel-efficient cars, San Carlos' Tesla Motors ensured its survival and helped raise the Bay Area's stature as a hotbed of green innovation.

"Tesla's success is our success," said Nanci Klein of San Jose's Office of Economic Development.

And Tesla's decision to spend some of that money to open a \$100 million advanced battery and powertrain manufacturing facility in the Bay Area — whose location will probably be announced next month — will "allow our local companies to engage even more with Tesla as they ramp up. We're ecstatic."

Privately held Tesla, maker of the all-electric Roadster, has been working with the Department of Energy for two years to lock up the funding.

While its share pales compared with the \$5.9 billion going to Ford Motor and the \$1.6 billion to Nissan North America, the money green-lights Tesla's plans for the battery facility as well as an assembly plant in Southern California where it will produce its next car, the Model S. This next-generation zero-emission sedan will go into production in late 2011.

During a conference call Tuesday, Chairman Elon Musk said the loan will help Tesla turn a profit by next month.

"We don't need to raise more money; we may choose to, but we're not out there beating the bushes to find other investors." And he predicted "the entire automotive market will eventually become fully electric, mark my word. It's just a question of how long."

Asked why he was so sure, Musk offered Tesla's recent sales as proof. "We sold 1,000 cars in a month and a half without having the money secured from the DOE, in the worst economy since the Great Depression, and with no advertising. What more do you need?"

The recession and credit crunch had hampered Tesla's access to cash, and getting the loan was considered crucial to its survival, even after the company announced in May that German automaker Daimler had acquired an equity stake of nearly 10 percent in the electric-car concern.

"It was either live or die," said Jim Hossack, an analyst with the AutoPacific consultancy in Tustin who called Tuesday's announcement "a turning point for the industry, just as big or

bigger than Tesla's deal with Daimler. That gave them credibility and technical resources, and this government support is vital to them as well."

In fact, Tesla's strategic partnership with Daimler was a key factor in the Energy Department's decision to lend it money. In a statement, Energy Secretary Steven Chu applauded Tesla's focus on accelerating "production of fuel-efficient vehicles in America. These investments will come back to our country many times over, by creating new jobs, reducing our dependence on oil, and reducing our greenhouse gas emissions."

Once dubbed "the poster child of green mobility," Tesla has been a leader in the race to make the electric car a reality, creating the first such vehicle, the Roadster, to travel more than 200 miles between charges. Next up: the Model S, a sedan the company hopes will have mass-market appeal that will sell for about \$45,000. That's about half the price of the high-performance Roadster.

Last year, Tesla announced it would build a 500-worker assembly plant in San Jose, but then said in January that it would instead find an existing building to retrofit and would be looking for a new location.

Musk said Tuesday the company would announce "probably next month" the Bay Area location of its new powertrain manufacturing plant, where 650 employees will produce battery packs, chargers, motors and power electronics modules — the "brains" of an electric vehicle — for both Tesla vehicles and those of other automakers.

Battery pack production will begin in 2011, reaching about 10,000 packs by 2012 and 30,000 in 2013, the company said.

And while it would have been nice to land the 1,000-worker assembly plant here as well, San Jose's Klein said, "The powertrain is the heart of this technology, and that's what's most important to have in Silicon Valley."

Automobile analyst Philip Gott with IHS Global Insight welcomed Tuesday's announcement, but he wondered whether a niche company like Tesla, despite its innovative prowess, was the best place to put government money. He spoke from China, where the government was now teaming up with industry to try to dominate electric-vehicle technology.

"This will be a very tough global race for technological superiority over the next decade," he said. "It's about time we got started. But with all due respect to Tesla, and I admire their entrepreneurial zeal and perseverance, my view is their business model works only in a very specialized premium market. And I wonder if our tax money would be better spent on a more mainstream player."

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