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Energy Tech Companies
Attracting Venture Capital - By Ken Silverstein
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Goldman Sach's admonishment that oil prices could hit $105 barrel may actually facilitate increased action on the alternative energy front. While the investment banking firm has no crystal ball, the writing is on the wall: fossil fuels not only have volatile prices but they are also responsible for most of the carbon dioxide emissions thought to cause global warming. New discoveries are therefore paramount—to add to market certainty as well as sustain the environment.

Attracting capital is the immediate hurdle. And venture capitalists are far more conservative than they were five years ago. But they're still looking for the right opportunities and once again are beginning to invest in projects where they see bright financial futures. Investors now have their eye on power grid optimization, renewable power and energy management. And in a vote of confidence for the "New Economy," the nation's biggest pension fund, CAlPers, has said it would pump $200 million in clean energy technologies over the next several years.

"This year, our research shows that energy tech continues to be a major asset class within venture capital, and that investors showed growing interest in solar, fuel cell and battery deals," says Rodrigo Prudencio, principal in Nth Power, which in concert with energy research firm Clean Edge, produced its annual trends in the clean energy world.

The late 1990s saw a burst in venture capital pursuits. But, the recession that followed just a few years later caused a sudden retrenchment in those activities. The research by Clean Edge and Nth Power, however, says that the markets for solar and wind energy as well as that of fuel cells is now poised to grow from $16 billion in global revenues in 2004 to $100 billion by 2014. It also says that venture capital investment in U.S.-based energy tech companies increased from $509 million in 2003 to $520 million in 2004.

Others say that most of the investment in energy concerns is going toward projects that produce cash flows and that require growth-related financing. Take Prospect Energy, which completed an initial public offering last July and which invests in energy companies with annual revenues of less than $250 million and in transaction sizes of less than $100 million. Prospect is interested in providing capital to companies looking at development, growth, acquisitions, or recapitalization—and does so without taking a control position.

The economic downturn in early 2000 meant that fledgling companies with innovative ideas were starved for cash. In the case of fuel cell companies, the flow of capital nearly stopped and their stock prices nosedived. Now, investors have come up for air and fuel cell makers as well as other green energy enterprises are getting a second look.

"We view this energy technology space to be a potentially huge opportunity for venture capitalists," says Ira Ehrenpreis, general partner for Technology Partners in Palo Alto, Calif. "We are in the early wave of this trend that we expect to endure."

Demanding Change

Investors are also demanding change. In a campaign coordinated by the Coalition for Environmentally Responsible Economies and the Interfaith Center on Corporate Responsibility, shareholder groups have tried to hold utilities accountable for air pollution and global warming. The effort sets out to make companies such as American Electric Power and Cinergy Corp.—utilities that rely on the use of coal—disclose the economic risks of all of their emissions, including carbon dioxide.

Those utilities are not ducking the challenge. Instead, they are investing in new generation technologies and have vowed to reduce their carbon dioxide emissions. Such steps are voluntary and not at the level environmental groups would like. But, many utilities have said they would agree to mandatory limitations once the technologies for achieving them become prevalent. In the meantime, they are hearing the constant drumbeat to address global warming and having to contend with shareholder resolutions.

"Disclosure commitments are only a beginning," says Mindy Lubber, president of the environmental coalition. "There's a much broader recognition from companies that climate change is a serious issue with serious financial consequences for investors if it isn't managed well."

Consider that renewable energy companies that are based in Europe, Canada and Japan—all three signatories to the global warming pact Kyoto Protocol—saw their share prices rise by an average of nearly 22 percent since early this year, says New Energy Finance. By contrast, similar companies based in the United States that did not sign the agreement, witnessed their share prices drop by average of nearly 14 percent.

Indeed, about 80 percent of all U.S. citizens say that President Bush ought to develop a clear plan to reduce carbon dioxide emissions, because they feel that the threat of global warming is real and not perceived. The irony, of course, is that Americans say one thing and do another. Currently, non-hydro renewable sources make up about 2 percent of the United States' generating portfolio of 770,000 megawatts. Platts Research, however, says that the potential residential demand within four years in markets where green energy is offered could be 6 percent— provided that renewables are marketed effectively.

The marketing process is undoubtedly complicated and involves the creation of a consumer awareness initiative that is funded by those with name identification and resources. Utilities are therefore integral to the goal of ushering in green energy—a process that will be helped along as such energy becomes more cost competitive.

Obstacles remain, namely investor reluctance. Investors have long memories and understand the risk involved. But, market pressures are prompting consumers to demand newer and cleaner forms of energy. Toward that end, renewable energy sources such as wind are growing—more than 2,000 megawatts are expected to be added this year. It's a trend that can make us all breathe a little easier.

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