

Energy

Jump Start

Rob Wherry, 03.22.05, 8:20 AM ET

High natural-gas and oil prices, turmoil in the Middle East and increasing worries over power outages have sparked a renewed interest in funding clean energy, say the authors of a report released today.

In 2004, \$520 million in venture capital cash flowed into solar, wind, fuel cell and energy technology companies, according to **Clean Edge**, a San Francisco research firm, and **Nth Power**, a venture capital outfit with \$250 million under management. While the sector's take is down from \$1.3 billion at the height of the dot-com bubble, it represents 3% of the \$20 billion that venture capitalists invested in startups last year, double the percentage clean energy garnered five years ago.

"The comfort level is returning to the VC markets," says **Rodrigo Prudencio**, a principal at Nth Power. "We are seeing more technology being used in energy. That's grown the number of firms interested in playing in this area." Prudencio and his counterparts at Clean Edge think clean energy could be a \$102 billion (sales) industry by 2014.

Clean-energy entrepreneurs don't have it easy--yet. They still have to fight for funding with industries perceived as hotter plays, like biotech or chips. Indeed, last year 69 clean-energy deals were closed, a 14% drop from 2003. The business plans that did receive funding, however, got an average \$7.5 million, an 18% increase and the first year in four that saw a rise in per-deal pots.

There was other evidence of a clean-energy resurgence in 2004. **General Electric** (nyse: [GE](#) - [news](#) - [people](#)) acquired solar company **Astropower** for \$15 million. **FPL Group** (nyse: [FPL](#) - [news](#) - [people](#)), Florida's dominant utility, produced 25% of its electricity from wind. Carmakers were also in the mix: **Toyota Motor** (nyse: [TM](#) - [news](#) - [people](#)) shipped 130,000 hybrid vehicles. Another catalyst was broad political support from politicians of every stripe, on both a federal and state level, to provide funding. "This is no longer a blue-state story," says Clean Edge's **Ron Pernick**. (Eighteen states currently spend \$1 billion per year on clean-energy initiatives, and more money is contained in the Bush Administration's stalled energy plan.)

The authors found that several sectors generated the most buzz. Distributed-energy companies grabbed 40% of the clean-energy funding. Distributed-energy companies provide clients with point-of-use products that help them produce power during a blackout, for example, or in areas with high electricity costs. **Evergreen Solar** (nasdaq: [ESLR](#) - [news](#) - [people](#)), a maker of photovoltaic modules, got \$20 million in private equity financing. Fuel cells also drew attention. In July, **PolyFuel** closed on \$18 million, led by **CDP Capital**. PolyFuel makes a sophisticated fuel cell membrane that permits methanol--a type of alcohol used for fuel--to interact with water and air to produce electricity.

For 2005, the authors expect fuels derived from biomass to be a hot niche, especially if oil prices stay above \$50 per barrel. Energy efficiency technology could lead to newfangled electric-engine designs, new lighting systems and smart building sensors that can help companies cut energy usage.

Interesting in investing? This isn't 2000, so the companies currently being funded probably won't trade shares for years. But there are more than a dozen clean-energy companies that are public, including Evergreen Solar, **Plug Power** (nasdaq: [PLUG](#) - [news](#) - [people](#)), **Ballard Power Systems** (nasdaq: [BLDP](#) - [news](#) - [people](#)) and **Avista** (nyse: [AVA](#) - [news](#) - [people](#)). There also are numerous VC funds you can get into--if you have around \$500,000 in cash to spare.