Oil prices grease cleantech

As oil prices spike, Clean Edge announces a record high for U.S. venture capital investments in energy tech. Big players like GE are wading in.

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Oil prices skyrocketing above $55 per barrel—along with conflict in the Middle East, power outage concerns, and support from state governments—are pushing clean-energy investments into the mainstream, said research firm Clean Edge in a report released Tuesday.

While gasoline prices hit $2.11 per gallon nationwide and natural-gas prices top $7 per million btu (the "British Thermal Unit" standard measurement), clean-energy prices are dropping, said Ron Pernick, a co-founder and principal of Clean Edge. "They are becoming less expensive, and they are becoming a stabilizing source because they tend to be renewable," he said. "Those are key drivers affecting the development of these technologies."

The markets for wind, solar-photovoltaic, and fuel-cell energy grew from $9.5 billion in 2002 to $16.2 billion in 2004, according to the San Francisco-based firm. Clean Edge expects the markets to reach $102.4 billion by 2014, and that is a conservative number, said Mr. Pernick. Clean-energy-technology investments were 2.6 percent of the total U.S. venture investments in 2004, after regularly making up less than 1 percent of the annual total until 2000.

Big players are getting involved. GE, which bought Enron Wind in 2002 and turned it into a $1-billion business annually, bought AstroPower last year. Clean-energy generator FPL Energy and private-equity affiliate Carlyle/Riverstone in February bought a majority interest in Californian solar-power-generating systems. Sharp Electronics sold about $1 billion in solar-photovoltaic equipment in 2004, and Toyota shipped about 130,000 Prius hybrids.

"One of our companies just had an underwriting by SG Cowen, which had never before come out as a major bank in this sector," said Rodrigo Prudencio, a principal at Nth Power. "In the public-market sector, there is definitely a growing awareness that this is an area that is an appropriate diversification, an appropriate hedge. Fidelity and other major players are getting involved in this area, and I think we will start to see more of this trend."

Still, results for 2004 were mixed, said Clean Edge. U.S. venture capital investments in energy tech—which includes clean-energy technologies, as well as supporting services and technologies—grew only slightly, to $520 million in 2004 from $509 million in 2003. The number of deals actually decreased, from 80 in 2003 to only 69 in 2004. But the deals have grown larger, with each company raising an average of $7.34 million in 2004, compared with $6.36 million in 2003. The average dollars per deal had been declining in each of the last three years, said Mr. Prudencio, adding that investors are pouring more money into each deal because they are expecting better financial returns. "The growing number of VCs participating in energy-tech deals has led to deal competition and higher investments in the most promising companies," he wrote in the report.

California shines

Investors are certainly being more selective, and startups are going to have to fight for their share of attention from investors, he said. Companies are also moving closer to self-sustenance. In a teleconference with reporters Monday, Mr. Prudencio said clean-tech companies have gone public on the London and Toronto exchanges. The U.S. clean-tech sector is still mainly private, but companies are beginning "to show the types of metrics investment banks like to see for taking companies public," he said. That includes solid revenues, customer relationships, cash flow, and future strategies.

More than one-third of the investment was in Californian energy companies, which got a total of $197 million. Then came Massachusetts, at $86.5 million; New Hampshire, at $29 million; Washington, at $25 million; and Colorado, at $21 million, he said. “We’re excited to see the diversity of deals growing in the energy space,” he said. “We already see a strong amount of activity in 2005, with more companies hitting the energy space and more investment.”

Joel Makower, a co-founder and principal of Clean Edge, said he expects to see a lot more money entering the clean-energy sector, which will become an established part of overall venture capital activity. Tim Woodward, managing director of Nth Power, said he believes oil and natural gas prices will only increase, and that investments in renewable energy will grow accordingly. “Energy is something that touches just about every sector of the global economy,” he said. “There are still not enough good-quality deals to really accommodate the money already in the market.”

Clean Edge said it expects major trends in the next year to include investment in biofuels, such as biogas, biodiesel, and ethanol; energy efficiency; concentrating solar power (CSP), which is a large-scale power-generation technology that uses the sun’s heat to produce steam, which is then converted into electricity; the hydrogen infrastructure; and green construction.