Finance Forum Highlights Success, and Challenges

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New York City, New York [RenewableEnergyAccess.com] Behind every series of gleaming solar panels or whooshing blades of commercial wind turbines, there are the less visible, but essential, elements that make renewable energy projects a reality: the developers, manufacturers, financiers, accountants and lawyers that back them. Last week, the renewable energy finance world shifted its gaze to the posh Waldorf Astoria hotel in New York City's financial district for the second annual Renewable Energy Finance Forum (REFF).

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- Robert Preston, Portfolio Manager PIA Program, Merrill Lynch

For a REFF first-timer and self-proclaimed serial entrepreneur-turned investment-banker and venture capitalist, John Strauss of Scius Capital attended the Finance Forum to gauge the pulse of the renewable energy industry and its investment environment.

"The capital is starting to flow in -- especially for projects, and the bigger the better," Strauss said. "The right mix is important. Get a long-term customer commitment to buy Power Purchase Agreements (PPAs), add a top quality operating team and structure the project or group of four or five smaller projects, plus a corporate structure to effectively use $100 Million in capital, and voila, multiple top tier firms are ready to take a hard look."

Strauss was among nearly 600 attendees at REFF's Wall Street event co-sponsored by the UK's EuroMoney and the American Council on Renewable Energy (ACORE). The attendance was about 30 percent greater than the previous year's showing.

Among many important success stories emerging from the REFF conference, in addition to the conference's overall success, were a few indicators for what's to come of future investing in renewable energy.

The California State Teachers' Retirement System (CalSTERS) -- the multi-billion dollar pension fund, by nature a conservative institutional investor, and VantagePoint Venture Partners co-invested $30 million in New Energy Capital (see link below). This is a notable shift and expected to make financing available for a variety of "steel in the ground" projects for onsite cogeneration, renewable energy, as well as biofuels.

According to Steve Westly, California's Controller, the New Energy Capital investment is "a good example of how California public pension funds have led the nation in their commitment to ensuring strong returns for investors and advancing important public policy."

Robert Preston, Portfolio Manager PIA Program, Merrill Lynch attended the two-day event, and found it very positive but also tinged with the challenges faced by an industry that has to contend with numerous state incentives with few federal guidelines.

"The event was exciting and informative especially (ACORE President) Michael Eckhart's presentation to start off the conference," Preston said. "His vision of 'where we are' was clear and his perspective of 'where we are going' was realistic."

Eckhart outlined the equity returns from global energy technology companies (New Energy Finance's Global Energy

Innovation Index) and observed the wide delta or difference in returns when comparing companies from Kyoto signatory countries and non-Kyoto signatory countries. Preston said this may help explain why the Wilderhill Clean Energy Index is down around 5 percent this year while traditional US energy indices in general are up over 20 percent.

"US energy technology stocks are being ignored versus the rest of the world," Preston said. "This might be why Steve Westly, Controller of the State of California, who gave the keynote address was positive on the renewable energy opportunities in, not California...but China. The lesson learned last week was to act local but keep your investment portfolio global."

Perhaps the next PV plant is destined for China, but there appeared to be no shortage of investment interest going into the U.S, as was clear from some major announcements at the conference.

Airtricity, one of Europe and the UK's largest renewable energy companies, used the Finance Forum backdrop to announce new initial investments in the U.S. of $270 million slated for wind farms in Texas, New York and the Pacific Northwest and total investments in excess of $1.5 billion by 2010 in the North American market.

SunEdison publicly announced its "SunE Solar Fund I", a $60 million fund to support the installation of up to 25 solar electric systems in the United States. In addition to securing Power Purchase Agreements (PPA), the SunEdison model attracts investors who can utilize tax credits generated by the projects. The pot was sweetened by unusually strong warranty commitments to the project by the module provider BP Solar, including a ten-year solar PV system power output guarantee.

The patchwork quilt of policy support for renewable energy at the state level, however, may be responsible for creating another challenging avenue for renewable energy in the US; regulations, and the need to navigate them.

Preston noted there may have been just as many lawyers at the Finance forum as there were finance people. It could be noted as well that the number one sponsor in the high-level Platinum division was Stoel Rives LLP, a multi-practice law firm.

"Not sure what this indicates," Preston said. "Maybe the industry is more about regulations rather than finance. I realize all of these comments in total might not be considered positive for the industry....look overseas for investments and in the US for complexity and regulations (etcetera)...maybe this is the result of numerous state initiatives without any federal guidelines."

Discussions and presentations toward the end the conference regarding the market for Renewable Energy Certificates (RECs) echoed the disconnect between state and federal policy and its effect on the renewable energy markets.

For example, the REC markets are driven almost exclusively by state policy. While much success has been achieved at the state level for promoting renewable energy and creating markets for RECs, the federal government has not fostered a unifying effect that would simplify and consolidate these various state policies; leaving renewables in a situation that naturally calls for more frequent and state-specialized legal consultation.

As the conference drew to a close, hundreds of miles away on Capitol Hill, the Senate drew much of their debate on energy policy to a close. This Tuesday, the Senate passed their version of the energy bill which contains a national Renewable Portfolio Standard (RPS) requiring that electric utilities source at least 10 percent of their electricity from renewable energy sources.

This is a strong, national version of similar policies that have driven the state markets. This could be the national solution to patchwork of policy support throughout the US, but the measure is largely expected to be dropped from the final energy bill once the two House and Senate versions are consolidated.

Although the measure faces a very tough battle in the House for final approval, it's federal policies such as these that would create a greater emphasis on renewable energy finance and investment in the future. The two are inexorably linked.
