

## Energy Investors Expect Corporations To Give Clean-Tech Impetus

By Nicholas Elliott

1/28/2010

Strategic investors will be a major driver of clean-technology investment, especially through their acquisitions, according to panelists at the Dow Jones Private Equity Analyst Outlook conference being held in New York.

Overall, the panelists - one private equity investor, one venture capital investor and one energy lawyer - saw energy as a good long-term bet. Despite the large amounts of renewable energy funding being provided by the U.S. government, however, they said companies shouldn't base their plans on that source of capital, nor on major changes in consumer behavior.

"For the rest of our investing lives, the energy industry is going to be a beautiful place to invest," said Tucker Twitmyer, a managing director with EnerTech Capital, a venture capital firm based in Conshohocken, Pa. One attraction, Twitmyer said, is that "we're seeing a huge amount of activity on the strategic side."

That strategic interest in clean-technology companies could provide a source of potential exits for investors, said Hovey Kemp, a partner in the private equity practice of Boston-based law firm Goodwin Procter LLP. "You can put together a long list of large corporations that are paying a lot of attention to this area," he said. Those companies could acquire clean-tech companies, offering investors a path to exit "whether or not the capital markets rebound," he said.

Both Twitmyer and Christopher Hearn, a managing director with Greenwich, Conn.-based private equity firm First Reserve Corp., took a wary view of government funding. Clean-tech companies, Twitmyer said, "are getting hurt trying to move those dollars around."

The two investors said they avoid companies facing the risk of adverse regulatory changes, as well as companies exposed to changes in commodities prices. That, said Twitmyer, is why his firm has avoided investing in biofuels plants or solar manufacturing, which also require large amounts of equity in order to build production capacity.

Looking ahead, Twitmyer picked smart grid as a fruitful sector in which to invest, though he warned that metering faces consumer resistance. When smart meters have been installed, "prices go up by an average of 300%," he said, and "people are not interested in managing their own energy consumption."

Instead, he said, the better opportunities will come through technology that allows utilities to operate more effectively, enabling "central management and control through electrical wires, so they're able to integrate decision-making through millions and billions of devices."

Hearn said "there's a tremendous amount of opportunity" for investments in electricity infrastructure. "There's growing electricity use across the board," both in North America and the rest of the world, he noted.

Having said that, limited partners in First Reserve's funds are "cautiously optimistic to skeptical" of investing in renewable energy and clean technology, Hearn said, as they cannot yet see the returns justifying the risk in many of the newer technologies, the exposure to commodities price volatility and regulatory interference.

Twitmyer said his firm also sees opportunities in green buildings and in coal-fired power plants, where he said the use of technology could help make plants more efficient and thereby potentially "mute" the impact of tighter regulations from the Environmental Protection Agency.

In December of last year, the EPA declared greenhouse gases a danger to public health, which is likely to

lead to regulations that could have a major impact on coal producers. The House of Representatives passed a bill last year capping carbon emissions but legislation is stalled in the Senate.

As well as strategic acquisitions, Kemp said there is more optimism in the market about achieving exits through issuance of new securities, pointing to private investments in public equities and to IPOs on non-U.S. exchanges such as the Toronto Stock Exchange.

Overall, Kemp said that for investors the energy industry has the long-term potential to be the "mother of all verticals."

-Mara Lemos Stein contributed to this article.