As green power investments rise, a fear they are being misguided
James Kanter

A hiker passing Scottish Power wind turbines at the Dun Law Wind Farm near Edinburgh. Long considered marginal, energy from sources like the wind, sun and plants is turning into one of the world's most highly valued industries. (Mike Wilkinson/Bloomberg News)

Long considered marginal and even quixotic, energy from sources like the wind, sun and plants is turning into one of the world's most highly valued industries. And while power generated by "green" sources remains tiny compared with fossil fuels, the sector has begun to attract the attention of big-league investors seeking to profit from a new wave of growth in alternative energy.

But even as the amount of cash swells, environmental officials warn that financing is flowing to projects that may be doomed to failure.

Once-trendy biofuels like ethanol produced from corn are now being derided by the authorities, who say the fuels have little value in the fight against global warming. Vital components for windmills and solar cells have run short over the past year, requiring expensive projects to a halt. Meanwhile, subsidies for renewable energy remain at the whim of politicians, creating a boom and bust cycle for wind farms and solar projects, particularly in the United States.

Such a risky environment means some bankers are placing bets on projects that are unlikely to develop into serious, profitable alternates to fossil fuels, and could ultimately slow investment flows

"Some of these green investments are going in the wrong direction," said Yvo de Boer, the executive secretary of the United Nations Framework Convention on Climate Change. "Very well-intentioned projects can go awry, particularly where government policies on cutting emissions aren't clear."
Other experts say pouring money into newfangled renewable technologies could prove less cost-effective than relatively straightforward improvements in energy efficiency. Efficiency measures could cut growth in energy demand in half by 2020 and earn investors double-digit rates of return, said Diana Farrell, the director of the McKinsey Global Institute.

"Too much of the energy debate has focused on simply boosting supplies that are destined to be wasted," she said.

Global investment in alternative energy last year soared 60 percent, to $148.4 billion, from 2006. That would need to triple in the next five years to roughly $500 billion if governments

are to meet their targets to reduce emissions and generate energy from renewable sources, said Michael Liebreich, the chief executive of New Energy Finance, which tracks investment flows.

But any transformation of the energy industry still may take decades, and investors should be wary, said Kevin Parker, the global head of asset management at Deutsche Bank.

"Climate change may be the most important investment megatrend of our lifetimes," Parker said. "But it creates a highly dynamic and treacherous investment landscape, and some of today's winners are bound to turn out to be tomorrow's losers."

Just three years ago, renewable energy was largely a niche area for specialist venture capital and private equity firms.

Since then, warnings by scientists about the link between emissions and climate change have sparked a flurry of new financing as authorities in the United States and Europe mandated greater quantities of power from renewable and clean energy sources.

Today, top-tier banks and big-name financiers dominate a closely watched annual rankings compiled by New Energy Finance.

Credit Suisse handled stock market listings worth $2.8 billion last year making it the most active in public market offerings, according to the third edition of the rankings to be released Friday. Merrill Lynch ranked second with deals worth $2.4 billion while Morgan Stanley was in third place, with deals worth $2.3 billion.

Good Energies, a firm based in Zug, Switzerland, made the largest number of venture capital and private equity investments in 2007 while heavyweights of the Silicon Valley start-up industry - Khosla Ventures and Draper Fisher Jurvetson - placed second and third.

In terms of overall amounts of venture capital and private equity, Goldman Sachs led with investments of $443 million followed by Credit Suisse, with $428 million, and Macquarie Bank, with $334 million.

Capitalizing on the trend, John Lynch, a banker with Merrill Lynch, arranged a spinoff of Iberdrola Renovables, the world's largest renewable energy company, from its Spanish parent.

But he had one concern about selling shares in a company in the red-hot wind power sector: The long shadow of the Internet boom and bust.

"We had to educate naysayer investors that this isn't dot-com all over again," said Lynch, the lead banker handling the initial public offering of its shares. "We had to convince investors that the cash flow couldn't just evaporate," he said.

Lynch explained how the value of Iberdrola Renovables - as with many Internet companies - was based on future cash flows. But unlike dot-com-era offerings, wind, Lynch was able to tell investors, is a viable business because of legislated rates to buy the product - clean electricity - at favorable prices from farms, many of which already are built.
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