Renewable projects face risk-averse culture

Anna Fifield and Kevin Sieff

Tom Carnahan knew his timing was poor. After all, he was trying to finance the development of his $350m, 150-megawatt wind farm in Missouri in the aftermath of a debilitating financial crisis.

“We went out to the usual suspects and they said this was something they would have funded six months ago, but that they were not doing any business or making any loans, even for the best projects,” he says.

It took him almost a year, but he finally succeeded last month in securing the $240m (€161m, £145m) in debt facilities he needed for the 100-turbine Lost Creek wind farm, which will generate enough electricity for 50,000 homes.

But not a single American bank is in on the deal. Instead, the construction loans and letters of credit are being provided by one Japanese and four European institutions.

“We did approach some [American banks] but they were not that aggressive,” Mr Carnahan says. “[Securing domestic money] was something that was important to me but not quite as important as getting the financing.”

Although the Obama administration has expanded and extended tax credits and grants to renewable energy and energy efficiency projects – the economic stimulus package included $80bn for green energy-related activities – most players still rely on commercial financing.

Larger American companies involved in more traditional areas of energy generation are holding up relatively well in the current circumstances, but renewable energy project developers like Mr Carnahan find themselves in something of a perfect storm.

With the Obama administration championing green technologies and global leaders gathering in Copenhagen next month to discuss a new international treaty on climate change, the environment for renewable energy has never been more favourable.

Indeed, there are more projects in the pipeline than ever.

But the global economic crisis has not only led to an inflexible credit market and smaller pools of capital, it has also sparked greater risk aversion that makes investors wary of relative newcomers such as wind farms and solar projects.

“It’s been a very stressful environment over the last year,” said Jim McDermott of US Renewables Group, a private equity organisation that invests in clean energy.

The business had been “besieged by people in the last six months that want to get their projects funded”.

“There’s simply a lot less capital to go around.”

Some industry players say that the problem is specific to project finance providers, which are still reeling from the credit crisis.

“Renewables are the leading category in terms of venture investment, outpacing IT and biotech,” said Dallas Kachan, managing director of the Cleantech Group, a San Francisco-based researcher and adviser.

Venture capital investment in clean technology companies rose 46 per cent in the third quarter from the previous three months, to $965m, according to figures collated by Ernst & Young, the professional services firm.

“The unfortunate issue is that project financing hasn’t woken up yet. Lenders aren’t making money as easily available as they once did,” Mr Kachan said.

While some recipients of Obama administration stimulus funds say the grants have allowed them to expand in ways they would not otherwise have been able to, many complain that the wheels of bureaucracy are turning too slowly.

The Department of Energy has spent just more than half of the $32.7bn it was awarded in the stimulus package, according to its website.

Analysts say the department is moving too slowly in rolling out loan guarantees from the stimulus package, while industry players say it is also leaning towards larger, safer projects.

“Some of the more innovative projects come from companies that are thinly capitalised, which the federal government doesn’t like,” said Mr McDermott. “The perception is that money is flowing to the big guys.”

The DoE declined to comment.

The financial chill is being compounded by regulatory and legislative uncertainty.

The process of passing climate change legislation that would explicitly encourage investment in low-carbon and alternative energy production has stalled in the Senate, amid opposition from Republicans as well as Democrats from coal and agricultural states.

Some see reasons for optimism in the financing bottleneck.

“There’s a tonne of funding for these companies,” said Michael Dorsey, managing partner of the Westly Group, a Menlo Park, California-based clean technology venture capital firm.

“If companies are having trouble getting financing, it’s likely because there are so many new projects.”

Case study

Solar energy company turns to parent power

Colorado-based Juwi Solar is getting around the financing drought by capitalising on the reputation of its German parent company, writes Anna Fifield.

“We find that in difficult markets there is a flight to quality and this is true also for renewable energy projects,” said Steve Ihnot, chief financial officer, adding that Juwi was focusing on long-term supply contracts with well-known companies.

In the past year Juwi has found equity investors for three solar projects – in Florida, New Jersey and Ohio – that will generate between 2MW and 12MW of energy, and is seeking backing for a fourth.

But Mr Ihnot doubts the Obama administration’s help for green energy will have much immediate effect.

“The stimulus was meant to move things along very quickly but there was not a lot of specific definition as to how the money would be given out,” he said.

“A lot of utility companies and state legislatures have taken a wait-and-see approach, so not only has this not stimulated things but it is stopping things in their tracks because people are waiting to see what happens at a federal level.”

Financial Times, London, Nov. 12th 2009, Companies, online.