

INVESTMENT IN OFFSHORE REMAINS STRONG

SHELL PULLING OUT OF LONDON ARRAY DID NOT AFFECT INVESTOR CONFIDENCE IN THE SECTOR. BOTH ON AND OFFSHORE IT'S BUSINESS AS USUAL AS WIND ENERGY COMPANIES ATTRACT RECORD AMOUNTS OF INVESTMENT, WRITES DAVID THORPE.

News of Shell's much-criticised departure from the London Array were soon overtaken by the announcement of the green light for Greater Gabbard – which when complete will be the largest offshore wind farm in the world. The announcement on the turbine order came in May, with an expected completion date in 2011. Sited 23km (12 miles) off the Suffolk coast, it will cover 150 sq km and have a maximum installed capacity of 500MW, sufficient to power over 415,000 homes. It will be constructed by Airtricity, recently acquired by Scottish and Southern Energy (SSE) and US firm Fluor.

Think that's big? Here's one twice that size. Oil billionaire T. Boone Pickens has placed a \$2 billion order for 667 General Electric wind turbines (that's 1GW of generating capacity) for his Pampa Wind Project. The Project will eventually cover 400,000 acres in the Texas Panhandle. "You find an oilfield, it peaks and starts declining, and you've got to find another one to replace it," said the 84-year-old Pickens, who made his fortune acquiring oil and gas companies. "But with wind, there's no decline curve." In the same week, by the way, Pickens also bought 10 million shares in Yahoo!

Perhaps this is why Gordon Edge, BWEA's Director of Economics & Markets, believes Shell's move was not significant. "It's just a reflection on Shell not anything else. They took the decision purely on business grounds, and so it's really business as usual. We think companies already involved in electricity supply are going to be more interested in this type of large scale project. Even though Shell has huge profits, shareholders always want to maximise these and ask 'Why don't you make any more?'"

Edge believes that there is more money around than projects to buy as far as venture capitalists are concerned. "I do get people asking me 'Is there a project around that I can buy?' rather than people complaining that they have a project that they can't sell."

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Of course all of these projects are onshore wind farms. Venture capitalists are not likely to be interested in offshore wind, or marine energy, yet, because the projected profits are too far off – longer than five years. "Offshore is all done on balance sheets," observes Edge. "There are banks interested, but it is difficult to make the numbers add up. In the marine sector, the investment is in companies that are making the kit," he continues. "For these sectors there is no near exit point so investors are the more committed types."

INVESTMENT IS STRONG

Wind energy stock has continued to rise, with Danish turbine manufacturer Vestas leading the way with a jump of almost 10% after announcing plans to build the world's largest wind farm in Colorado.

Will Ferguson of the Triodos Bank told BWEA: "Shell pulling out of the London Array coincided with our renewable energy fund share issue, in Triodos Renewables, which covers wind energy and some small hydro. We also have a fund managed together with the Carbon Trust called Connected Energy, which does research and development into capturing waste process heat from a factory and piping it to nearby public buildings. We got 400-500 respondees on the first day and received pledges of £5m in the first four weeks. Our target is £8.5m.

"The fund has 3300 shareholders. It began in 1995, and the last share issue was in 2005. The return on interest has been 22.9% since then, or just over 7% per year."

Projects covered by the fund include the replacement of 10 old wind turbines at Caton Moor wind farm in Lancashire with eight new ones. The fund also has a stake in Marine Current Turbines, which has just completed its first commercial installation, a 1.2MW SeaGen tidal energy system in Strangford Narrows in Northern Ireland. A larger installation, with npower, is in development off the coast of Anglesey. Marine current turbines could eventually supply, in theory, up to 20% of UK electricity needs.

Matthew Clayton, Triodos Bank

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North Hoyle © Anthony Upton supplied by npower renewables

"2007 SAW THE THIRD CONSECUTIVE YEAR OF RECORD-SETTING INSTALLATIONS IN THE US, WITH OVER 5,200 MEGAWATTS OF CAPACITY INSTALLED"

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Triodos Bank's Matthew Clayton takes up the story, discussing why offshore wind is currently inherently more risky: "If you look at the returns you can get from renewable energy schemes, with the exception of landfill gas, onshore wind has the lowest costs. Offshore wind has half as much again. Compounding factors are that turbines are sold in Euros but electricity is bought in pounds Sterling and the change in exchange rates has affected the economics. The costs of offshore wind are exaggerated because of scale and the higher cost base. It has inherent risks because it is less mature as a market than onshore wind and investors find it less easy to rationalise the risks." There are also only six vessels in the world which are capable of installing offshore turbines, and they are heavily oversubscribed.

So, supply chain issues aside, how do you build confidence for new investment? Good Energy's philosophy is to actively seek out renewable producers. They have a five year purchase agreement for 60% of the output of the newly finished Westmill Co-op wind farm. "That security of income helped persuade me to become an investor," said an anonymous poster, a private small investor, on Ecotricity boss Dale Vince's blog on 8 May. The Co-operative Bank has invested £3.85m worth of funding into the project. The Bank has specifically set aside £400m towards energy and carbon reduction initiatives.

Globally, the annual market for wind turbines is roughly \$23 billion, with steady projected growth, according to the Michigan Manufacturing Technology Center, NextEnergy and Ann Arbor-based Shepherd Advisors. 2007 saw the third consecutive year of record-setting installations in the US, with over 5,200 megawatts of capacity installed. Another supporting figure is that the US market for new wind energy will average over \$5 billion annually from 2008 to 2015, according to Emerging Energy Research, a Cambridge, Mass., consulting and analysis firm.

New investment in clean energy did dip in the first quarter of 2008, according to figures from New Energy Finance, although mergers and acquisitions (M&A) activity jumped dramatically - indicating that the credit crunch is making its effect felt. However, New Energy Finance is holding to its 2012 investment forecasts, maintaining that the "fundamentals remain strong". The dip is only temporary and there may already be signs that it's over. Investment in wind assets, as opposed to the renewable sector generally, were \$6.6bn in Q1 2008, compared with \$7.2bn in the same quarter last year, and seem to be holding up despite the looming expiration in the States of the US Production Tax Credit (PTC). This suggests that developers are confident a solution will be reached before the PTC finishes at the end of the year.

HIGH LEVEL OF MERGER ACTIVITY

It's important to differentiate not only between financial activity around offshore and onshore wind, but between mergers and acquisitions (M&A) and new investment.

Corporate M&A activity surged in Q1 2008 compared to the same period last year, with total transactions of \$7.7bn compared to \$3.5bn. In fact Q1 2008 saw the second highest level of corporate M&A activity in any quarter, after Q3 2007. One of the largest recent deals was Scottish and Southern Energy's €1.4 billion acquisition of Irish company Airtricity; and Greentech bought an Italian 24MW wind farm for \$13 million. Triodos Bank's Matthew Clayton said: "If a developer has a site with grid connection assured and a land lease, they probably would get about 30 EOLs. Some are from UK infrastructure funds with an interest in renewable energy, some are utilities."

Is there a possibility of a bubble in the renewable energy sector? Yes, said over half the respondents in a poll of executives of 200 global power and utilities companies, suppliers, distributors and investors in mid-May. This figure jumped to 66% in Europe, said a KPMG report, *Turning Up the Heat*. "Buyers are paying big multiples for assets in their efforts to be ahead of the curve as governments seek to cut emissions."

Andy Cox, Partner in KPMG, said, highlighting the role that government subsidies are playing in the sector - subsidies which may not be guaranteed in the future. "Our concern is that investors may be ignoring the risks of investing in an embryonic industry that has still to undergo a huge amount of change as it matures."

KPMG has estimated that the price paid by Indian company Suzlon Energy's €1.1 billion acquisition of REpower in 2007 was about four times its annual revenue, whereas Franco-Belgian group Suez valued Compagnie du Vent at over 50 times its annual revenue when it bought a 50.1% stake for €321 million in November 2007. Another trend also highlighted by KPMG's survey which points towards the possibility of a bubble emerging is that small investors are entering the market where bigger, seasoned ones are more cautious. Two-thirds of the largest companies agree that a bubble is a possibility whereas only 44% of smaller companies do. Although the bigger firms are doing more buying, smaller ones are much more likely to incur new debt (45% compared with 24%).

No doubt the impact of the credit squeeze meant that some companies became targets of corporate acquirers rather than private equity investors or the public markets. In this climate, London based wind power developer Honiton withdrew plans for an IPO last month, citing uncertainties in capital markets. CEO Paul Everly said that the company is instead seeking private financing to develop new projects, which include wind farms in China's inner Mongolia. He could try asking T. Boone Pickens.