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Report sees dark times for green power in short term

But biofuel, wind are expected to help re-energize sector

By Scott Simpson

The massacre of green-energy stocks in recent months will stall or kill many prospective North American power projects, warns a new report from Scotia Capital.

However, comparatively high fossil-fuel prices and a global interest in confronting climate change are expected to breathe life back into the sector, although biofuel and wind-power projects will have distinct advantages over solar power.

Globally, green energy equities have dropped 70 per cent since the meltdown began last fall. Scotia alternative and renewable energy analyst Ben Isaacson says in a report titled Down. . . But Not Out that some will find it difficult to recover, while others will become takeover targets.

Isaacson noted that share values for green-power companies have fallen twice as hard as the S&P/TSX Composite Index and the MCSI World Index, "due to a decline in the global energy complex, as well as higher cost and more stringent requirements for debt financing."

"Marginal renewable power projects are being cancelled, equity issuances are virtually unachievable, venture capital financing is drying up, and some companies are now facing bankruptcy," the report said.

In British Columbia, for example, EarthFirst Energy's Dokie Wind Power project was forced into creditor protection late last year after a report downgraded its wind resources, and financing dried up.

Even BC Hydro's interest appears to be waning.

Hydro recently announced it is cutting by 40 per cent the amount of green electricity it sought in the 2008 "Clean Call" to 3,000 gigawatt hours per year from 5,000.

Hydro expects attrition among successful bids to cut the amount of power ultimately available to 2,000 gigawatt hours per year.

Declining oil and natural gas prices have reduced government and public interest in cutting dependence on oil imports, notably in the United States, the report said.

Companies without a proven track record of bringing power to market won't be able to borrow money "until tight lending conditions begin to loosen."

The news for independent power producers isn't all bad, in Isaacson's estimation. He offers 10 reasons why Scotia remains bullish over the long term.

"While the sense of economic urgency to achieve energy security has been reduced, we believe that the necessity remains intact over the long term, and is supportive of our long-term bullish stance on North American renewable power development."

Isaacson said the No. 1 reason is that governments are increasingly committing to including renewable power as a component of their national electricity portfolios.

As well, a post-Kyoto agreement on greenhouse-gas emission reductions should make green power, and its ability to generate tradable carbon credits, an attractive option.

Other reasons include a "sharp" drop in the capital cost of building wind farms and other renewable energy projects, North American adoption of carbon pricing regimes, continued global reliance on fossil fuels and the need for offsetting technology, reinvestment in transmission capacity, political and public support for green energy, a drive for energy self-sufficiency, attractive green energy subsidies in Canada and the U.S., and a reasonable expectation that equity and credit markets will recover.

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