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How the Financial Debacle Might Power the Future

With tax credits and the credit crunch, the renewable energy market is being pulled in two directions

By Michael Schirber, LiveScience

Is there any silver lining for alternative energy in this gloomy financial market? Like seemingly everything else in these topsy-turvy times, the answer may be yes and no.

The stocks of clean energy firms have fallen dramatically, as evidenced by a 38 percent drop since the start of September in the WilderHill New Energy Global Innovation (NEX) Index, which tracks this sector.

This was a bigger dive than seen in the general market — the Dow Jones Industrial Average fell 19 percent over the same period.

"Quite simply, the overall stock market has been hit by panic, and investors have been rushing to reduce risk," said Angus McCrone, chief editor at London-based New Energy Finance Ltd., which co-publishes the NEX index. "So young, high growth — but also relatively high risk — sectors such as clean energy tend to get bashed even harder than the rest of the market."

However, the U.S. government may have helped stop the bashing with an extension of several renewable energy tax credits, as part of the \$700 billion bailout package that President Bush signed into law on Oct. 3.

These tax credits could help offset the credit crunch that is hurting investment in renewables, McCrone told LiveScience.

"The medium outlook is that banks will resume lending and will be looking for

opportunities that are more reliable than mortgages," he said. "Clean energy has proved itself a mature asset class and should be an attractive hope for banking lending."

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Other industries — including geothermal, plug-in vehicles, fuel cells, biodiesel and even "clean coal" — will also share in the billions of dollars of federal aid. Part of the cost will be covered by a change in the tax code for the oil and gas industry, but not all of the money has been accounted for yet, Real de Azua said.

Renewable money

Even with the tax credits and incentives, developers may have trouble raising the investment capital. Two of the biggest financial lenders for clean energy investments, Lehman Brothers and Wachovia, are now gone. (Lehman Brothers went bankrupt and Wachovia was bought by Wells Fargo.)

"The credit crunch is making it a bit more expensive for renewable energy developers to raise debt for their projects," McCrone said.

However, there is reason to think that clean energy will weather the financial storm.

"The fundamental growth story for the sector remains intact," McCrone said. "Energy security and climate change are still pressing issues and governments are implementing policies to encourage utilities to sell clean energy rather than fossil-fuel energy."