

## SUSTAINABLE ENERGY AND OUR ECONOMY: NEW ALLIES

By Mitchell R. Cohen, Esq.

For decades, warnings from environmentalists and those concerned with US energy security fell on deaf ears. What could have possibly caused the sea change in public awareness, governmental policy and the rebirth of an industry that lay fairly dormant for decades? The answer may be as simplistic as the announcement that the price of gasoline had reached \$4.00 per gallon. With that kick-start, renewable energy has taken its long-awaited seat on Wall Street and its influence on the M&A arena has increased almost on a daily basis. Our country's sustainable energy goal is a dual one: to protect our environment and to improve our energy independence.

### High Hopes, Rising Investment

The clean energy industry in the United States is still in its infancy; yet, with our economic crisis showing no significant signs of a breakout, it is hoped that alternative energy will play a vital role in a long-awaited economic recovery. Job creation in our emerging clean and green economy has grown at a faster clip than our domestic job rates. Estimates indicate that the industry is poised for future growth, with factors such as increasing consumer demand for alternative energy, the infusion of venture capital from sources that see new market potential and the existence of significant federal and state governmental incentive programs, such as the American Recovery and Reinvestment Act, carrying the torch.

Renewable energy businesses, ranging from solar and wind to biomass and biofuels, are attractive to investors domestically and worldwide. Although the torrid pace of the last few years may cool down a bit as we move forward, many forms of alternative energy are expected to see sector growth over the next five years. These expectations portend continued growth patterns for solar projects, but may indicate some constriction in the wind energy industry unless federal "subsidy" programs are extended.

Record investment in alternative energy is being documented in 2010. In the first quarter of this year, \$27

billion was invested globally, a 31 percent increase from 2009. Statistics indicate that the renewable energy sector will impact our domestic capital investment markets to the tune of \$22 billion in 2010, with the figure spiking to almost \$30 billion in 2012 and remaining at over \$25 billion annually through 2015. The sector includes solar, wind, hydroelectric, landfill gas, geothermal and biomass power. Despite our disastrous economy, the solar and wind markets had a record-breaking calendar 2009, with solar production surpassing 475 Megawatts and wind markets surpassing 10,050 Megawatts.

Sustainable energy companies are still navigating their way through a myriad of federal and state incentive or subsidy programs, sensitivity to oil and natural gas production and pricing and difficulty in obtaining capital. Billions of dollars in funding is available, but bureaucratic hitches, including understaffed governmental agencies, are slowing the money process down. Major US-based renewable energy companies, however, are now beginning to take their place as major players on our economic scene. First Solar, the largest manufacturer of thin film solar modules, has a market cap of around \$10 billion.

One of the brightest spots in the green energy segment has been the increase in venture capital and private equity funding, which hit \$2.9 billion globally in the first quarter of 2010, compared to \$1.7 billion in fourth quarter 2009. M&A activity in the clean energy arena reached \$5.2 billion in the first three months of 2010, a little lower than the previous year, but almost a 300 percent increase over the same period in 2009. In the US, asset financing in the green energy field rose to \$3.5 billion in the first quarter, from \$2.4 billion in the fourth quarter of 2009.

Manufacturers have taken quick notice of the compelling growth in our solar and wind energy markets. Companies not previously active in the renewable energy arena have made the foray into the industry. In a number of geographical areas of the United States, in particular the mid-Atlantic and Southwest regions, the price per kilowatt hour for wind and solar has become competitive with natural gas. Because long-term growth comes

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in part from shifts in the price for clean energy, that factor, together with federal and state production and investment incentives, has produced a favorable climate for manufacturers. The economic stimulus package created two programs that had a significant impact on the manufacturers' entree into green tech, namely, 1) the clean energy manufacturing tax credit, and 2) a program that provides grants for renewable projects in lieu of tax credits. The programs have enabled the manufacturers to significantly reduce the cost of building, expanding and retooling their facilities.

### **Moving Forward**

It is estimated that over the next 20 years, the percentage of overall power generation arising from renewable energy sources and resources will increase from its present figure of about five percent to around 17 percent by 2030.

Perhaps the most telling statistic is revealed by following the money trail -- more than \$5.6 billion in venture capital investment was contributed to alternative energy companies in 2009, comprised of investment into solar, wind, transportation, biofuels and energy efficiency.

As we move forward into the next stage of the life of the sustainable industry, the question to be answered is whether the industry will be self-sustainable or whether its economic viability will be dependent upon the sometimes-generous, sometimes-unkind legislative hand of our federal and state governments and those of our foreign counterparts. With present figures indicating an ever-increasing percentage of our energy needs being fulfilled by sustainable energy resources, renewable energy will occupy an increasingly important role in our economic makeup and M&A activity.



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