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SILVER LININGS

Renewable energy fuels finance boom

By Peter Page

Staff Reporter

Firms that have built expertise financing renewable-energy projects for equity investors are enjoying solid business, despite the credit crisis.

They are completing a stream of deals to build power lines in Asia, trade “carbon credits” in Europe and nurture an array of new technologies expected to find markets in a world where power comes increasingly from wind and sun.

“We’re working with entrepreneurs building solar generating facilities in smaller cities in a developing country,” said Menlo Park, Calif., partner Buddy Arnheim, firmwide chairman of the emerging company practice at Seattle’s Perkins Coie, citing one example of a promising company he is matching with investors.

“We’re working with a client that has developed an acoustic system for electric cars. They are so quiet otherwise, it has caused accidents. The credit crisis has implications in that people are more cautious, but we are seeing continued investment in solar, wind and wave energy.”

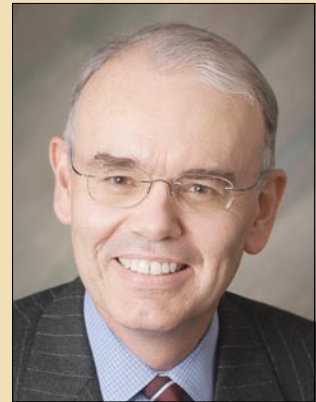
Environmentalists have long touted renewable energy—so called because it is generated from inexhaustible sunshine, wind, waves and plant materials—as a benign alternative to polluting, and exhaustible, coal and oil.

Emission credits

American firms are active in Europe, where mandates to reduce emissions of carbon dioxide from fossil fuels drive an active renewable-energy market. Here in the United States, the slowdown in lending has had little effect on equity investors, lured by lavish tax breaks, looking for partial ownership or stock in renewable-energy projects.

Stephen Hall, partner and chairman of the renewable-energy initiative at Stoel Rives in Portland, Ore., noted that the Regional Greenhouse Gas Initiative (RGGI), which encompasses 10 Northeastern states, has imposed a regional rule requiring coal power plants in the region to purchase credits to emit carbon dioxide.

Little noticed by the public but of keen interest to investors, the first RGGI auction of emission credits went smoothly in September. President-elect Barack Obama has endorsed a similar national “cap and trade” system that Hall said would vastly increase the work for his firm



John Gulliver: *His firm is flexible on its fees to help startup companies get going.*

in trading carbon credits and the investment it will motivate to improve energy efficiency.

“I had a call yesterday from an investment banker looking for equity investments,” Hall said. “We are talking with people who see tremendous untapped investment potential in energy efficiency and green building in the U.S.”

The steady business and optimistic prospects at Stoel Rives grew from a strategic decision the firm made six years ago to become expert on renewable energy and a broad range of associated technologies that appeared certain to grow into giant industries, Hall said.

“Under every scenario we could imagine looking ahead 50 years, regardless of energy prices or degree of

regulation, renewable energy was a winner,” Hall said. “We decided to learn as much as we could about the industry and established an initiative across all practice areas focused on renewable energy and climate change. We made a big bet six years ago that is paying off.”

John Gulliver, head of the energy group at Pierce Atwood in Portland, Maine, is working on financing to bring renewable hydroelectric power from Central Asia to India and Pakistan as an alternative to building coal power plants.

Closer to home, Pierce Atwood has nurtured a startup wind power producer and Ocean Renewables, the first U.S.-based company to produce electricity from ocean tides.

“We are flexible on our fees to help startup companies get going,” Gulliver said. “Our skin is in the game. If the company does not get funded, we don’t get paid, but investor interest is very strong. We have a couple of wind power developers moving forward aggressively, despite the decline in fossil [fuel] prices. The bloom is not off the rose, despite the past couple of months.”

And it may get better.

Firms with healthy renewable-energy practices, and their investor clients, believe a long boom is beginning. They note business is strong now, despite the credit crunch, for deals to build solar energy power plants in the Western deserts and wind farms in the heartland—deals driven largely by a hodgepodge of state utility commission requirements that power companies market some minimum percentage of renewable energy.

Obama in the past week directed his economic team to fashion programs to create or save 2.5 million jobs in the next two years. Policies encouraging

domestic manufacturing of wind turbines, solar panels and generators powered by ocean waves, linked by a rebuilt “smart” nationwide energy grid, are expected to play a big role creating new jobs, attorneys believe.

“The national consensus is we need to develop these technologies as a matter of national security, and lawyers do important work marshalling the capital to get it done,” said Gulliver of Pierce Atwood.

Planning ahead

Keith Martin, a partner in New York-based Chadbourne & Parke’s Washington office, said the firm’s investor clients are preparing for regulatory changes favored by the incoming Obama administration and Congress for a national mandate requiring utilities to market renewable power and for the eventual regulation of carbon emissions. “Hedge funds are voracious for information, looking for pivot points when the markets will turn dramatically, and they see this coming,” said Martin, adding that about half the time billed by the 66 lawyers in the corporate transactions department is for clean-energy deals.

“We are doing a lot of things we weren’t doing 10 years ago, and that is before the federal government has gotten into the act. We are doing deals overseas, project financing, legislative work,” Martin said. “We have a large reinsurance practice, and there are new insurance products to address climate change. Our securities lawyers are busy with disclosure statements. How do you quantify the costs for a utility that relies on coal if they will likely need emission credits? Climate change and the switch to renewables changes what lawyers do.”

William Brownell, head of the cli-

mate change practice in Richmond, Va.-based Hunton & Williams’ Washington office, said European regulations requiring investments in renewable power and reductions in greenhouse gas emissions, and the anticipation of similar regulations soon in the United States, is driving investment regardless of the credit freeze.

The firm last month completed a \$47 million deal to finance a power plant in Belgium that will use wood waste to produce both electricity and 50,000 tons per year of wood pellets that are used widely in Europe as a substitute for coal and natural gas. “Business is strong in Europe, where companies have to invest for regulatory compliance, and it is strong in the U.S. because people have been preparing for the compliance market everyone sees happening,” Brownell said.

“With the new administration very much focused on climate change legislation, we will see developments from a regulatory and legislative standpoint,” he said. “We anticipate there will be not just the deal work and the carbon trading but a lot of work on legislation and litigation.” ■

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