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Democrats May Give Alternative Energy a New Push

By NORM ALSTER

THE fortunes of alternative energy companies have been linked to two factors outside their control: oil prices and politics.

Rising oil prices have moved in the companies' favor over the last few years, making the price of producing energy from wind, solar, geothermal or organic sources more competitive.

Now some analysts and money managers are hoping the imminent Democratic takeover of Congress will also be bullish for alternative energy stocks by improving prospects for favorable legislation for the industry.

One likely initiative, known as a national renewable portfolio standard, would require utilities to derive 10 percent of their electricity output from renewable sources by 2020. Currently, less than 3 percent of electricity is generated from such sources. Senator Jeff Bingaman, Democrat of New Mexico, the presumptive chairman of the Senate Energy and Natural Resources Committee, says he hopes to pass "some version" of a renewable portfolio standard in the next Congress.

The details of such legislation — as well as whether it would be approved by Congress and signed by President Bush — are very much uncertain. But that hasn't stopped investors from placing their bets.

Democrats may be in the forefront, but they aren't the only ones to jump on the alternative energy bandwagon, said Randy Gwartzman, a research analyst at Baron Capital, which is based in New York. "Both sides of the aisle have shown they're in favor of alternative energy sources," he said.

Senator Jeff Sessions, Republican of Alabama, for example, is concerned about the nation's reliance on imported oil. "With the surging prices of oil," he said, "there's a strong feeling among



HOLLY KUPER

Fuel Tech equipment in use in Wyoming. The company makes various systems to reduce emissions from a variety of chemical and coal-fired plants.

Republicans that our economy and national security can be damaged if we don't decrease our dependency."

Mr. Gwartzman recommends shares of SunPower, which he said has a highly competitive solar-cell product line that is well positioned to benefit from a more sympathetic Congress. Stuart Bush, technology analyst at RBC Capital Markets based in Austin, Tex., also likes SunPower, which is a spin-off of Cypress Semiconductor. Mr. Bush says SunPower solar

cells are more efficient than the industry average in converting solar energy into electricity. Unlike many other alternative energy companies, SunPower already generates a small profit, and its revenue could reach \$600 million next year and \$1 billion in 2008, Mr. Bush said.

A renewable portfolio standard should help alternative energy move closer to parity with traditional energy sources, Mr. Bush said. "Each technology individually is on a path to reducing costs and achieving parity with traditional energy sources, some very dramatically. The wind industry is probably closest to achieving economic viability without any support" from the federal government.

One company he favors is Zoltek, which makes lightweight carbon-fiber blades for wind turbines.

Zoltek could also be helped by a longer extension of federal renewable energy tax credits, a legislative goal of wind-energy lobbyists. The production tax credits, which reward electricity producers for each kilowatt of energy they generate from renewable sources, are scheduled to expire next year. In the past, the credits have typically been extended for two years at a time, which the wind-energy industry maintains is too short a period to stimulate long-term investment.

Democrats will support a longer extension, Senator Bingaman said. "Clearly, we do need to extend those tax credits that relate to renewable energy, and we need to do so for a longer period," he said.

A consensus on alternative energy is perhaps closest in biofuels, which have the support of many Republicans, particularly from farm belt and southern states. "I do think we need to increase the use of biofuels as much and as quickly as possible," Senator Sessions said.

He said he favors increased research support for cellulosic ethanol — ethanol produced from plant matter — along with government aid to test production of the

fuel. The Bush administration is soon expected to outline a plan to aid cellulosic development.

Matthew W. Patsky, co-portfolio manager of the Winslow Green Growth fund in Boston, said that of all the alternative energy technologies, "cellulosic ethanol has the greatest upside." But he added that it was hard to identify worthwhile investments. "I don't know who's going to win," he said, because, at the moment, it is too costly to produce cellulosic ethanol.

In the meantime, most ethanol in the United States will be derived from corn, and Democrats in Congress plan several initiatives that would help the growing roster of publicly traded corn ethanol producers like Archer Daniels Midland, Aventine Renewable Energy, The Andersons, VeraSun Energy and Pacific Ethanol.

In a position paper on energy, the Democrats set a goal of having ethanol available at 10 percent of domestic gas stations by 2015, along with a mandate that would require automakers to increase production of vehicles that can run on either gasoline or an 85 percent ethanol mix. Such a mandate is necessary to push major oil companies that own many gas stations to install ethanol pumps, said Senator Charles E. Schumer, Democrat of New

York. "We believe we have to push the country into alternative fuels whether the oil companies like it or not," he said.

But corn ethanol investments are risky because producers remain hostage to both rising corn prices and falling gas prices. A "sliding credit" that increases ethanol subsidies as gas prices fall "is the type of thing that has to be looked at," Senator Schumer said.

Still, oil and gas prices are likely to rise over the long term, with increased demand from China, India and other developing countries, he added. "Even if oil goes down \$10, the price is still high enough for alternative energy to compete," he said. "Alternative fuels are viable with oil at \$50 a barrel."

Senator Bingaman said he hopes to tighten standards on carbon emissions from coal-burning utilities by instituting a nationwide cap, along with "a market-based system for emitters to buy allowances to emit and trade allowances to emit."

Headwaters, a company based in South Jordan, Utah, that has technologies that treat coal to reduce sulfur, nitrous oxide and mercury emissions, stands to benefit from caps, Mr. Bush of RBC Capital said. He has a "high 30s" target for Headwaters shares, which now trade at around

\$24. The White House has opposed strict emission caps in the past, but opposition may be more muted this time around, the RBC Capital analyst said.

INVESTORS in alternative energy may also get help from the states. New Democratic governors in Massachusetts and Ohio are expected to join an alliance of Northeastern states that has pushed to tighten emission standards for coal-fired plants, Mr. Patsky said.

One beneficiary might be Fuel Tech, which sells systems that reduce such emissions, he said. The stock is up more than 170 percent this year. It closed on Friday at \$24.90, but Mr. Patsky said it could rise to \$35 or \$40 within a year.

Some states may also move to impose "green" building standards, Mr. Patsky said. Beneficiaries may include Interface, which makes synthetic carpets from recycled plastics, and Herman Miller, which makes extensive use of recycled materials in its office furniture.

The re-election of Gov. Arnold Schwarzenegger of California on an enthusiastically pro-environment platform could encourage other states to pass green legislation, Mr. Patsky said. "That single state alone could have tremendous impact."