

Argus Q&A: Alex Urquhart and Steven Taub

Alex Urquhart is the president and chief executive of GE Energy Financial Services, which provides products that enable energy project financing worldwide. The company has been investing in renewable energy projects since 1983. Urquhart became president of GE Energy Financial Services in 2003 after more than 21 years at the company.

Steven Taub is senior vice president of investment strategy in renewables at GE Energy Financial Services. Prior to joining GE, Taub worked on policy issues for Cambridge Energy Research Associates. He has also worked for the US Department of Energy in the office of the assistant secretary for environmental management and the office of new production reactors. In this interview, edited for length and clarity, Urquhart and Taub spoke to Argus about the state of renewable energy finance.

Argus: In the past 10 years there was a lot of support for renewable energy based on pending CO₂ constraints. What is your philosophy on renewable investment in the US, where pending national carbon constraints do not seem a near-term reality?

Urquhart: I think there are a lot of benefits to renewable energy in addition to just carbon. The Clean Air Transport Rule, for example, is expected to make around 20pc of coal plants shut down. So there are a lot of environmental issues that people deal with for power generation that are not just carbon. I think wind and solar benefit all of those. I understand politically it is a reality that cap-and-trade is off the table. But I am not sure I accept that global warming and carbon are no longer issues. They could not have been issues as much as they were two years ago and just be gone today. Longer term I think there is still a great deal of sensitivity on global warming.

Taub: The renewable energy investments we have made so far have not been bets on carbon policy. There is no upside to that right now.

Argus: GE hit a big, publicized goal this week by reaching \$6bn

of investment in renewable energy. What is next for the company?

Urquhart: We announced that by the end of the year we will have reached \$6bn of investment in renewable energy. That is important to us. We did our first renewable energy deals in 1983 – some hydro and geothermal – but we still had only about a half billion dollars of investment [in renewables] by 2003. We put together a team around then to focus on renewables. It was the advent of a big push in the wind area in the US. And we set some aspirational goals. The first was to get to \$2bn, and then \$4bn, and then to \$6bn. We just achieved that this year. So we are really excited about that.

Argus: What does that mean for the future?

Urquhart: Well, we no longer feel we need to set another aspirational goal. But we plan to keep growing our renewable business. We have got great momentum behind it, we have got a series of partners, we have got a large portfolio. I think we are known in the industry and have a number of ways we participate, whether as a lender or equity provider. So I feel pretty good about where we are, and we feel pretty good about having the momentum to keep going. A lot will depend on whether [the renewable energy sector] gets the cash grant extension and continues to receive government support.

Argus: The future of the Treasury grant program under section 1603 is uncertain. If it does expire, what does that mean to renewable investment? Is there still a way to get projects financed without grants in-lieu-of tax credits?

Urquhart: There will still be projects that get financed. Will there be as many? The answer is we do not know.

Taub: We are members of an American Council on Renewable Energy (ACORE) group that did a study to figure out how

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much need there is for tax equity versus how much supply there is. We established there is about twice as much need as supply in the marketplace. This shows why the grant program is so important to maintain for the industry.

Argus: Wind and solar development in the US has exploded over the past two years. Do you think the pace is sustainable over the next five years?

Urquhart: In the US it will be highly dependent on whether the government continues to provide the incentives it provided in the past. The industry has driven down the cost of many of these new technologies and they have become more and more competitive. But I do not think today that there is parity between the cost of wind or solar, and say, a combined-cycle [plant].

With no stimulus I think that those industries will slow down. In some places they will not. In some places the wind is so strong, that it will make sense anyway. In some places the price of electricity is so high that solar will still make sense. But with no incentives, those will slow down. That would be unfortunate, because there are a lot of jobs there, there are a lot of environmental benefits that are not being counted in the grid parity calculation.

There is a lot of economic stimulus in the form of new tax revenue that comes from this industry, as investors pay taxes on profits, as manufacturers pay taxes on manufacturing profits, and as property taxes are paid and such. There is also the advantage to renewables we often forget, which is that natural gas and oil prices move all over the place. Natural gas happens to be very low today, but what will its future be? The expansion in shale production is likely to keep it low for some time. But what will it be in 20 or 25 years? Renewables give you an insurance card against that. There are a lot of advantages to renewable power that justify the government providing an incentive.

Taub: Just under 10,000MW of wind was installed in the US last year. This year it is looks like that number is going to be 6,000MW, maybe a little bit less.

So the industry has already slowed down compared to what happened last year. On the solar side, I think installations will continue to accelerate for now, because there are a lot of big projects in the pipeline.

The issue with wind has been getting the power purchase contracts they need at prices that support the investment. There are a bunch of big solar projects that have those, and so they are going to drive growth for the next year or two, regardless of what happens after that.


Argus: Alex, you had said that in certain places wind and solar are almost grid competitive now. I would assume California for solar, Texas for wind – are there any other places where renewables are almost grid competitive?

Urquhart: Actually I was thinking of Hawaii for wind. Maybe Texas too. I just remember that we have seen projects in Hawaii that have capacity factors approaching 50pc. On solar it is a distributed form of generation, you can put it very close to the load. So in certain parts of the country that have very high electricity rates, you can compete.

Argus: GE has invested extensively in wind turbine manufacture, in particular. There is currently excess wind turbine manufacture capacity in China. Companies are selling near cost in some cases. How is the Chinese situation affecting the global market?

Urquhart: I am part of the GE capital family that invests in facilities once they are built so I cannot really comment on manufacturing.

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Argus: But from an investment point of view, how would that shape the global market right now?

Urquhart: Well, I will not use wind as the example. I will use solar. We have seen the cost of installed solar come down as people scaled up facilities and as there is more capacity. Right now in the solar world I think there is excess capacity, and you are seeing that in installed prices of solar plants.

The question about whether these things are competitive comes down to two real issues: what is their capital cost, and what is the price of the fuel that a conventional source would burn?

So right now with very soft gas prices, you have to have very low capital costs in order to be competitive.

Taub: China has been making a lot of wind turbines. Right now they are mostly – almost exclusively – used in China as well. We have not seen them exported to the US in large numbers. That may change over time. I think a lot of that will depend on whether project lenders and investors are comfortable with the technology [the Chinese] provide. Is it reliable, does it perform as expected? That comfort is going to take time to develop.

Argus: Wind turbines are really big. What are the mechanics of exporting them? Can you put them on really big ships?

Taub: You can. And this is why consistent US policy is so important. If you have got a large market that you know is going to be around, it makes much more sense to manufacture them domestically, because they are really big. But manufacturers will locate production, generally, where there is large demand. And you have seen that in the US these past few years with the growing industry.

Urquhart: Things can actually be easier with offshore wind turbines. Onshore you eventually run into the point where you cannot move the blades around the country. We were involved in one project where in order to get the turbines to their sites, they had to widen roads, because every time they went around a corner, the blade could not make the corner. As you go bigger and bigger and bigger, you have to go offshore.

Argus: Outside the US, where do you see the best opportunities for renewable energy project growth?

Urquhart: Solar across southern Europe, notwithstanding the economic challenges. There is great solar radiation across southern Europe.

We are looking at some wind transactions in India right now. I am told by my team over there that there is a lot more in the pipeline. We just did a wind transaction in Turkey. We actually have a fairly active business, both hydro and wind, in British Columbia. It is an interesting place because they have a lot of big reservoir hydro to use as a balancing factor against run-of-river hydro and wind.

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