

# GE Energy Financial Services CEO Alex Urquhart talks renewables, shale gas

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 By Andrew Engblom

GE Energy Financial Services announced Dec. 9 that its renewable energy investment portfolio had reached \$6 billion, thus meeting the company's multiyear target through 2010.

SNL Energy spoke with GE Energy Financial Services President and CEO Alex Urquhart and Senior Vice President of Investment Strategy Steven Taub on the sidelines of the American Council on Renewable Energy's Phase II of Renewable Energy in America forum following the announcement. The interview took place in the Cannon House Office Building on Capitol Hill as lawmakers were debating a compromise tax deal reached by President Barack Obama and the Republican leadership. GE Capital is a unit of General Electric Co.

What follows is an edited transcript of that interview.

**SNL Energy: You announced today that GE Energy Financial Services has officially reached its \$6 billion target for renewable energy investments. Can you explain the history of that target?**



**Alex Urquhart**  
 President and CEO,  
 GE Energy Financial Services

Alex Urquhart: We have been in renewables for 30 years. Some of the earliest projects that we did as a business [came] in the early '80s after [the Public Utility Regulatory Policies Act]. One was the Heber geothermal project out in the Imperial Valley, and one was Boott Hydro up in Massachusetts. But we really saw it as a big opportunity when production tax credits and the wind business came in. In [February 2006], we spun it out from our power finance team and said that there is a market here and it's different than just power finance. It's more driven by the tax side of things and structures that involve taxes.

**You say that renewable energy now makes up nearly 30% of your overall portfolio. What volume of assets do you have overall?**

Urquhart: It's about \$21 billion currently.

**Now that you've reached this target, where do you expect to go next? Will you set a new target for renewable energy investment?**

Urquhart: We are going to keep growing the renewables business. We needed early on, like any team, to have aspirational goals. I think our first one was to get to \$2 billion and then to get to \$4 billion and then \$6 billion. I think we have evolved to the point that we are

well established and have an active set of clients and partners [and have] a pipeline of things to invest in. So we are not contemplating another aspirational goal. We are going, clearly, to keep growing our renewables investments, not only here in the U.S. but abroad. One of the things we are very conscious of in the U.S. is policy. Will the government continue to provide the necessary incentives to keep this industry on the trajectory it has been over the last couple of years? If it does, then that will have one growth rate with it. If it doesn't, it will have another.

"There needs to be something in place that creates a demand for utilities to sign long-term contracts. It's the PPAs that provide the ability to grow the industry." -- GE Energy Financial Services President and CEO Alex Urquhart

**What federal policies do you see as the most important?**

Urquhart: The big one in the near-term is that you get the extension of the [U.S. Treasury Department's Section 1603 cash] grant. Much of that growth we talked about — the [production tax credit] fueled that growth. But after the '08 financial crisis, not everybody has a tax base at the level that they had. In the near term, it's the grant that has been the most effective program.

That is the most immediate. Longer term, we think there needs to be some sort of federal action to follow the states, whether you call it a renewable energy standard or a clean energy standard. There needs to be something in place that creates a demand for utilities to sign long-term contracts. It's the PPAs that provide the ability to grow the industry.

In addition to that would be transmission. There are still a lot of transmission bottlenecks, particularly in wind. I think the most important thing to us is that there be a predictable, consistent and sustained policy so that as investors we can build a business and not have the year-on, year-off situation.

**Do you have an opinion on the renewable energy standard versus the clean energy standard?**

Urquhart: I think the answer is that we are not biased one way or another.

Steven Taub: The view that you see is that there are a lot of people in this town who think a renewable energy standard is too narrow. The goal is to do something about climate change in a world where it's going to be extremely difficult to get any kind of comprehensive economywide cap and trade. A clean energy standard that focuses not on picking a particular technology but on setting a goal of having more clean energy might be more politically viable. That could include nuclear, it could include clean coal, and it could include energy efficiency on the demand side or the supply side. There are a lot of things that could fit into that bucket that makes it more political viable.

Urquhart: I think it needs to be long term and it needs to have teeth to it. It needs to be something that will create the demand.

### **Do you have any numbers on how your investment in the U.S. might change with the cash grant's expiration?**

Taub: We are part of [the U.S. Partnership for Renewable Energy Finance]. US PREF did an analysis of what is the impact of extending the grant. The issue that you've got is that there is a limited supply of equity from people who want to invest in these projects to use these tax benefits. The market has grown, and that means there is more demand for this kind of equity. We did an analysis this summer using our expertise of what the capital structure of that would look like. We estimated that you would need \$9 billion.

That was based on 9.3 gigawatts of wind. Now it is looking more like 6 gigawatts, partially because it is hard to get PPAs from utilities, but you still need \$6 billion. US PREF went out and surveyed all of the investors in this market, including us, and the supply was about \$3 billion. There was demand for about twice as much capital as was available.

### **Does GE Energy Financial Services participate in investing in the tax equity markets?**

Urquhart: We do. We have done structured tax credit deals, but it is more difficult to predict your tax base, particularly out 10 years.

Taub: There are investors who are in the market now who will not play if the grant goes away. So, the supply of equity actually goes down if the grant goes away.

Urquhart: One of the things that we have been doing is bringing in investors who want to enter into the renewable investment space to participate in our transactions. As Steve said, most of these investors are interested in grant deals, not PTC deals. In some cases, they don't have tax base. They don't have the predictability of the tax base. To continue to increase the size of the investor pool, I think the grant is a better way to go.

"In addition to this big position we've built in wind, we are seeing more solar opportunities." — GE Energy Financial Services President and CEO Alex Urquhart

### **Is there a sector of the energy space that you are particularly targeting for acquisitions or investment?**

Urquhart: We continue to target the renewables space — let me make that clear. In addition to this big position we've built in wind, we are seeing more solar opportunities. The solar space will continue to grow for us.

Beyond that, the shale is creating enormous capital expenditure needs. Whether that is monetizing people's conventional reserves to create the capacity for them to go into the shale reserves — the unconventional — or whether it is the infrastructure associated with conventional and unconventional, there are enormous needs associated with this new shale play. There are even sub-interests on that. It's not big right now, but it interests me. There will be a lot of water treatment issues that result from the frack water cleanup. Of course, that is another area in addition to the direct energy area that we are looking at investments.

Another area is that because of the shale play and because of the change in the long-term outlook for natural gas and because of the uncertainties associated with future environmental legislation — not just carbon, but things like the clear air transport rule and

other things — I think there is a big opportunity in the combined-cycle space. The simple-cycle and combined-cycle gas turbines are taking advantage of the abundance of gas, the pricing of gas, again at about half of the environmental footprint of coal. That's not to say that coal, given the abundance of it in the U.S., isn't part of the mix, too. Or that coal can't be made clean. It can. But I think there will be an increase in attention on combined cycle.

"The shale is creating enormous capital expenditure needs." — GE Energy Financial Services President and CEO Alex Urquhart

### **If you were looking to increase your investments in combined cycle, would that be through acquisitions or building new plants?**

Urquhart: It would be both. Right now, I have not seen as many new plant opportunities. We see some. We have a couple of development properties that we have been working on in California that would be new gas-fired facilities. But there will also be some opportunities to acquire some existing capacity and improve it. Some of the capacity that is out there is not operated as it should be given the changing dynamic of how much you can run. One of the things we look a lot at is some of the peaking plants out there that should be running mid-peak or mid-capacity. Does it need investment or a change in behavior to make it more efficient?

### **How do you think the interaction between natural gas prices and the wind sector will play out?**

Urquhart: I was sitting in this morning's session, and the FERC chairman talked about the fact that the renewable energy industry and the gas industry should work more closely together. Gas is a nice quick-start flexible generating source that marries up nicely with renewables. I think there is a lot of opportunity for renewable portfolios and combined cycles to work together.

### **How do you see the outlook for investment in the U.S.?**

Urquhart: A lot depends in the short term on what happens on the grant and what happens for demand for new PPAs. We are not the first step in the process. We generally marry up with developers who have sites, who have PPAs, and then we bring capital. A lot will depend on whether there continues to be support here in the U.S. to see how big that market is. We have to have in the near term the grant at least to continue.

On the other hand, we will continue to look around the world for opportunities. [Our foreign investments are at] about 20% today. Capital tends to move where the risk-return profile is the best and where the opportunity is. We have the scope to go around the world.

### **Overall, going forward, have you set a target to grow your energy business in the years ahead?**

Urquhart: GE Capital Corp., which we are a part of, has made an effort to make sure that we continue to grow our vertical businesses. They include aviation, health care and energy. We are the energy investment arm of GE Capital. This company has made commitments to continue to focus on and grow that space. We have been doing that since 1983, and we have had a consistent track record of growth through that period. It's a growing business. *i*