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Getting More Green: Funding for Clean Tech

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By Charles Shereda

This is not likely to be the first you've heard this, but if you're a modern-day Rip Van Winkle and just woke up from a nap you began in 1999, you'd better brace yourself – maybe grab a cup of coffee. The news? It was tough going for entrepreneurs looking for funding in 2009. *Really* tough, in fact. With just 43 IPOs in 2008 and 63 in 2009, down from 272 in 2007 and 486 in 1999, the Initial Public Offering is now a long shot exit strategy for new ventures. That fact, along with the general economic malaise and continued tightening of credit markets, is giving VCs pause before diving into new ventures. The days of $300 million pets.com investments are over.

Clean tech investment took its share of bruises in the downturn, but as Ira Ehrenpreis, the Conference Chair for the Clean Tech Investor Summit said in his opening remarks to a filled hall in Palm Springs on Wednesday, we should not be viewing clean tech "through the myopic lens of our current concerns." Instead, he said, clean tech is about the next 100 years. It is the focal point for solving the world's energy problems, for providing clean air and a stable atmosphere, and for lifting most of the population of the planet out of poverty.

The good news for clean tech businesspeople looking for funds? Clean tech investment is now growing, consuming 18% of total investment dollars in the third quarter of 2009. According to Ehrenpreis, the first week of 2010 saw over $100 million in VC money flow into clean tech investments. He also pointed out that by 2030, the planet will require an additional 191 quadrillion BTUs of energy over current levels, which will require an additional $26 trillion in investment. Not a small amount, by any stretch.

The challenge is that despite that huge level of required worldwide investment, energy consumption is not a high demand-growth sector in the U.S. As a result, analogies between clean tech and the Internet boom (such as in my own pre-conference post) can fall short if you're focused on investment returns across all of clean tech. A good portion of that $26 trillion falls into the low-return category, which is anathema to VCs. So how do we get there from here, without the funds to make it happen?

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The solution, according to Reed Hundt, Co-chair of the Coalition for the Green Bank, is federal agency debt. In his keynote address to the summit, Hundt said that federally-guaranteed loans to fund clean energy project development is an "absolute necessity" to replace less-efficient electricity infrastructure. Hundt envisions lowering the overall cost of capital from 8% to 4.5% for efficiency and renewable projects with 20-year government-backed bonds created by the Green Bank.

Hundt sees the Green Bank as the only viable solution to achieving the Renewable Portfolio Standards set by states, because, as he put it, 'RPS will only be enforced when it is not punitive for utilities.' For energy storage afficianados, Hundt believes that using Green Bank loans to create a massive, guaranteed pipeline of clean energy solutions such as wind will create the demand for storage – build it, and they will come, or in this case, build it and they will build it. That's not exactly a treatise on storage technology, but it's a position rooted in Hundt's experience as chair of the FCC during the late 1990s, where he saw communications infrastructure expand rapidly as a response to Internet and telecom growth.