

European Markets

Fuel Cells Re-Energize Power Sector --- Innogy Is Sure Enough to Float Unit With Electricity-Storage Technology --- Ability to Sell the Product After It Is Generated Could Raise Value of Renewable Resources

By Andrea Chipman

Dow Jones Newswires

862 words

17 April 2001

[The Wall Street Journal Europe](#)

12

English

(Copyright (c) 2001, Dow Jones & Company, Inc.)

LONDON -- U.K. utility Innogy PLC's announcement last week that it plans to float its fuel-cell storage unit Regenesys by early next year reflects the growing confidence alternative-energy companies have in attracting equity investors in spite of shaky markets.

Fuel-cell technology could revolutionize the whole electricity business by overcoming the one thing that separates it from other commodities -- the impossibility of storing it. As power markets in the industrial world deregulate, the value of technology that enables companies to manage their energy-price risk could be enormous.

It could also complement the spread of renewable-energy technologies such as wind and solar power, which European governments are pushing aggressively but which suffer from a high degree of unpredictability.

Still, just how much investors take a shine to these companies remains a question. Investors face a challenge in trying to determine the growth -- and value -- of technologies that are partly unproven and still narrowly applied.

The small community of fund managers focusing on so-called new-energy industries defend the earnings potential of the companies -- even after watching some shares plummet as much as 80% on the global backlash against technology stocks.

"While investors' risk profile has changed and they don't want to put the same multiples on earnings, the fundamentals on these companies are still strong," said Robin Batchelor, a fund manager of Merrill Lynch's GBP 140 million (225.9 million euros), closed-end New Energy Investment Trust, which made its debut eight months ago.

With markets rocky, investors are particularly anxious to see results rather than bank on future performance, he added. "If you looked at our top 10 investments, the majority of those companies are selling products," he said.

Many European governments are committing to spending public funds to reach targets in promoting renewable energy. The U.K. government is already aiming to have 10% of its electricity come from renewable sources by 2010 and has imposed a renewable-energy obligation on companies to help achieve this. It has also earmarked GBP 100 million to spend on renewable energy over the next few years.

And large European utilities, including Germany's RWE and Italy's Enel, have allocated hundreds of millions of euros a year to research and development funding of renewable energy.

Environmental sentiment has also helped to fuel investor interest.

"The pension funds want to combine performance with social responsibility.

They invest into energy because it's the most relevant sector if you look at the whole sustainability" issue, said George Furger, assistant portfolio manager at Credit Suisse First Boston in Zurich, advisor to the Prime New Energy Fund. "We are sure that this segment is getting more and more important."

The challenge of evaluating the future profitability of alternative energy sources is complicated in part by the range of companies involved.

Renewable-energy encompasses wind power companies such as Danish concerns Vestas and NEG Micon, and solar power producers SolarWorld and Astro Power, which have the most widely used of the new technologies so far. Yet even the phenomenal 14-fold growth of wind power over the last decade has brought it to just 0.4% of total electricity production, said Merrill's Mr. Batchelor, who said around 40% of his fund is invested in renewable-energy companies. And it remains to be seen if renewable-energy generation costs can be made competitive.

On-site fuel-cell and micro-turbine generation -- in which Canadian company Ballard Power Systems Inc. and U.S. concern Plug Power are two of the leading players -- is viewed by some investors as the most lucrative area, since the technology can be applied to cars as well.

But the spreading U.S. power crisis could offer the biggest boost to superconductor and regenerative fuel cells, which offer the power storage that was previously elusive. The technology promises to eradicate the hitherto inevitable intra-day swings in the value of electricity -- one of the only commodity whose value depends almost entirely on the time at which it is produced.

Innogy has high expectations for its Regenesys project, which emulates a "giant rechargeable battery," according to company literature, allowing electricity produced during off-peak periods to be stored for peak use.

Although the technology is still at the commercial-demonstration stage in projects for the U.K.'s National Grid Company and the U.S. Tennessee Valley Authority, Regenesys is the largest fuel-storage project under development.

The technology, which investors have valued at anywhere from GBP 300 million to GBP 1 billion, is designed to provide 120 megawatt hours of electricity storage and help overcome bottlenecks in overburdened transmission networks.

U.S. rival American Electric Power is testing its own electricity-storage system, a sodium sulfur battery first developed by Japanese companies Tokyo Electric Power Company and NGK

Insulators, which can also smooth out energy-delivery problems, said Dave Nichols, manager of AEP's Ohio battery test plant.