Greenwire
THE LEADER IN ENERGY & ENVIRONMENTAL POLICY NEWS

11. FINANCE: Buffett pours cash into GE *(10/02/2008)*

In another unexpected deal stemming from the financial crisis, Warren Buffett has agreed to pour at least $3 million into General Electric Co., a move that could possibly provide a much-needed boost in investor confidence.

Buffett's Berkshire Hathaway Inc. agreed to invest between $3 billion and $6 billion into the typically stalwart company that has suffered from the credit crunch. GE said it would sell at least $12 billion in stock to other investors.

The deal highlights how the credit crisis can shake even the most stable companies. GE's immediate problems are rooted in its finance unit, which propelled much of the conglomerate's growth in the past 25 years. GE Capital has assets of $695 billion, more than many banks but at lower leverage. It lends money to businesses like restaurant franchisees and finances those loans by borrowing for short periods at low rates and lending at higher rates for longer periods. The crisis in the credit markets has pushed up GE's borrowing costs.

Berkshire's investment in GE came eight days after it made a $5 billion investment in Goldman Sachs Group Inc. and two weeks after it agreed to acquire Constellation Energy Group Inc. for $4.7 billion (*Greenwire*, Sept. 24).

The move has the potential to be extremely lucrative for Buffett. In addition to the guaranteed $300 million in annual dividend payments on his preferred shares, his warrants to buy $3 billion of GE common shares at $22.25 for five years could yield large profits (Glader/Rappaport, *Wall Street Journal* [subscription required], Oct. 2). -- **KJH**

Greenwire
THE LEADER IN ENERGY & ENVIRONMENTAL POLICY NEWS

13. FINANCE: Buffett buys $5B stake in Goldman Sachs *(09/24/2008)*

Michael Burnham, *Greenwire* senior reporter

Goldman Sachs Group Inc. raised $5 billion in a public stock offering this morning, double the amount the bank sought initially, after securing a major investment from Warren Buffett.

Goldman **(NYSE: GS)**, one of Wall Street's biggest investors in alternative energy, said late yesterday it would sell Berkshire $5 billion of perpetual preferred stock that carries a 10 percent dividend. Buffett's Omaha-based company also received warrants to buy $5 billion of common stock with a strike price of $115 per share.

Goldman also said it planned to raise at least $2.5 billion in common equity in a public offering. Instead, Goldman sold more than 40 million shares of common stock at $123 apiece for gross proceeds of about $5 billion, a company spokesman said today.

The moves came amid concerns about the vulnerability of Goldman and other Wall Street banks that rely on short-term funding from the capital markets. On Sunday, the Federal Reserve agreed to convert Goldman Sachs and Morgan Stanley into traditional bank holding companies, which may accept deposits but are subject to tighter regulation. Previously, three of Goldman's biggest rivals went bankrupt or were forced into fire sales (*Greenwire*, Sept. 19).

Michael DuVally, a Goldman spokesman, said his Fed-regulated bank plans to expand its deposit base through a combination of acquisitions and organic growth. He underscored that Goldman has no current plans to acquire any commercial banks.

Buffett's big buy appeared to bolster investor confidence in Goldman. In morning trading today, Goldman rose $4.80 a share, about 4 percent, from the previous close of $125.05.

In a statement, Goldman Chairman and CEO Lloyd Blankfein said the stock deals would be used to strengthen the 139-year-old bank's capitalization and liquidity position. Goldman has been beefing up its alternative energy investments since 2005.

As of the beginning of 2008, Goldman had invested more than $2 billion in cellulosic ethanol maker Iogen Corp., wind power developer Horizon Wind Energy and other clean-technology companies. DuVally said Goldman's switch to a bank holding company will not affect its cleantech investment strategy.

But Dan Esty, who directs Yale University's Center for Business and the Environment, said the disappearance of the traditional Wall Street investment banks could mean a major shift in where cleantech financing originates.

"It's really transitional instead of a loss," Esty said. "The promise of cleantech means that we could see more corporate investments and venture capital and private equity."

David Benson, a partner in the Seattle office of Stoel Rives LLP -- a major broker of renewable energy deals -- is just as sanguine.

"In the short term, with the investment banks disappearing and the debt markets being closed, a lot of projects are impacted," Benson said. "Longer-term -- maybe six months to a year -- once stability has come back to the markets, these projects are too high-value and important."

Steven Greenwald, partner in the San Francisco office of Davis Wright Tremaine LLP, agreed that money for such projects will continue to flow because of state renewable energy portfolio standards and regional greenhouse gas caps. The money just will not be as easy as it once was, due to increased collateral requirements for loans, he predicted.

"The optimum word now is deleveraging," Greenwald said.

Greenwire
THE LEADER IN ENERGY & ENVIRONMENTAL POLICY NEWS

1. FINANCE: Green energy projects face heightened scrutiny as U.S. cleans up credit mess *(09/19/2008)*

Nathanial Gronewold and Michael Burnham, *Greenwire* reporters

NEW YORK – The crisis roiling Wall Street is threatening to choke financing for green energy projects.

Venture capitalists and private equity firms could fill the void as traditional financing options dry up. Indeed, private equity fund managers say the current turmoil could turn into a net positive for them: As debt markets turn their backs on green energy companies, many will look to venture capital and private equity to get backing for new projects or expansions.

But the new, highly risk-averse environment will make it that much more difficult for companies to convince investors to put money behind renewables. While the sector is still very popular, the chief worry among money managers is protecting existing portfolios and guaranteeing that any new investments will net them strong, long-term returns.

"It could be a tremendous benefit," said Greg Horn, an advisory professional with Pegasus Capital Advisors. "For some of them the economics work, and some don't. So we're able to be selective as we always are, but there's a larger universe to choose from."

If weak market conditions persist, only the strongest of proposals will survive. Many private equity fund managers say that they favor green energy projects that can stand on their own, without government help, in a very jittery environment.

That sentiment bodes ill for many wind, solar and biofuel projects. Many of them owe their existence to the federal tax credits and subsidies that Congress is now debating. While investors are more than happy to let projects earn a return thanks to tax incentives, the difficult investment climate means that cleantech companies will have to prove that their ventures can survive without them.

The tax incentives are still a very important part of the equation. The industry has warned that tens of thousands of "green jobs" are at stake if the credits are not extended.

But the gloomy investment climate suggests that clean energy needs a quick rebound in credit markets more than it needs lawmakers to renew tax credits if it is to avoid a desert of financing options for the rest of 2008 and 2009.

And institutions that are willing and able to invest can afford to be choosy.

"There are economically viable renewable energy projects that don't rely on those things," Horn said. "The general level of scrutiny is going to stay higher for a while."

Banking landscape shifts

U.S. finance has undergone a continental shift in the past few days.

The changes have come so suddenly and on such a scale that the future of existing holdings in both fossil-fuel energy and cleantech remains up in the air.

On Monday, Bank of America Corp. agreed to buy Merrill Lynch & Co. Inc., and Barclays PLC petitioned a New York bankruptcy court to acquire Lehman Brothers Holdings Inc.'s North American investment banking and capital markets businesses.

The fire sales provided a short-term shock to the system. Skittish investors, some of whom transferred their money to safer Treasury bills and gold, sent the Dow Jones industrial average and other indexes tumbling through most of the week. But it is not clear whether the consolidation will create stronger banks with greater capacity to invest in energy projects over the long term.

The Merrill acquisition would make Bank of America the world's top securities brokerage, with more than 20,000 advisers and $2.5 billion in client assets. The deal, expected to close early next year, could also give Bank of America a greater foothold in energy equity and natural resource markets.

Merrill holds a 50 percent stake in BlackRock Inc., which as of the end of June reported more than $1.4 trillion in assets under management, including an energy equity vehicle and a natural resources hedge fund. Merrill also has established U.S. and European gas- and power-trading operations and real assets.

Ernesto Anguilla, a Bank of America spokesman, declined to say whether his bank would keep or sell any of the Merrill energy assets.

"It's really early in the process, and decisions like that haven't been made yet," Anguilla said.

Barclays on Tuesday said it would acquire Lehman's North American investment banking and capital markets operations and supporting infrastructure for $1.75 billion. The deal, subject to approval by a bankruptcy court and regulators, includes trading assets valued at $72 billion and liabilities valued at $68 billion. The deal also includes Lehman's New York head office and data centers in New Jersey.

In a statement, Barclays said the acquisition of Lehman's equity capital markets franchises would strengthen the London-based bank's investment banking products. Barclays also said Lehman's brokerage and cash equity capabilities would strengthen its hedge fund franchise.

"The acquisition happened extraordinarily quickly," said Leigh Bruce, a Barclays spokesman. "We're still trying to get a sense of how big Lehman is."

And while it wasn't the largest player in the field, Lehman is known for its sizable holdings in renewable energy. The company had bought up big positions in solar and wind companies, including stakes in JA Solar, Evergreen Solar and Clipper Windpower. Merrill Lynch was also bullish on the future of renewables.

Some of these holdings may soon be on the auction block. Both venture capital and private equity firms have reported receiving calls from Lehman and Merrill employees inquiring about their relative interest in buying up stakes. No firm offers have been made, but insiders believe the two former giants are floating trial balloons to see how easily they could offload these assets to raise capital or pay off creditors if needed.

The banking landscape may still be shifting.

Yesterday, Wachovia Corp. and Morgan Stanley were reportedly discussing a merger, and Washington Mutual Inc. was prepping itself for sale. If a Morgan Stanley-Wachovia merger were to go through, that would leave Goldman Sachs as the sole surviving investment bank on Wall Street -- down from five.

Want cash? Get in line

The financial industry is still coming to terms with the seismic changes, but most risky investments will be falling by the wayside for some time. The five big investment banks -- institutions that take no deposits -- have long been the dominant players on the Street. Their willingness to take on greater risk often reaped them huge rewards.

Now, they have been swept aside by the likes of Bank of America and Barclays, more conservative and strictly regulated lending institutions that keep a tighter lid on their investment-banking arms. Renewable energy companies will now have to contend with them to get backing for future projects.

But they may have to wait some time for the privilege. Lending has all but frozen in the markets. What loans that are available come with such high interest rates that they make project financing unviable.

And the stock market slide is making it difficult to raise capital by selling shares. Cleantech stocks fell sharply this week with the rest of the market, though they are now rallying as the traders anticipate government intervention. The WilderHill New Energy Global Innovation Index (NEX), a renewable stock tracking instrument run by New Energy Finance, was up by about 4 percent at press time today.

"They do represent somewhat riskier bets for investors, so it's not uncommon for our index ... to show a little bit more volatility than the market as a whole," said Ethan Zindler of New Energy Finance. "Some of the companies that had ties to Lehman took a particular hit."

Venture capital and private equity are some of the few remaining options they can turn to. These nontraditional sources of finance have been a big part of renewable energy's growth in the United States in recent years, and they are expected to stay active.

But the tumultuous markets mean that venture capital and private equity funds will more carefully scrutinize clean energy. The shaky business footing of many biofuels and fuel-cell ventures means these sectors are set to lose in the competition for new money, fund managers say. Energy efficiency technologies and biomass are increasingly coming into favor.

Even traditionally risk-friendly venture capitalists are expected to focus more on shoring up their existing portfolios in the short term before committing to new projects. The growing skittishness from both finance categories will be a challenge for new clean energy ventures for some time.

"Because this is a capital-intensive business, we tend to move more toward the more proven, established technologies, and that does present a little bit of a chasm between some of the new renewables that are emerging today and the capital needs that go into them," said Rahul Advani, a vice president at Energy Capital Partners.

'An uncomfortable several quarters'

Nearly everyone is assuming weak conditions moving forward.

The American Bankers Association's Economic Advisory Committee predicted yesterday that the U.S. economy will slip into a recession by the end of the year. Peter Hooper, the ABA committee's chairman, said in a conference call that recessionary catalysts include weak consumer confidence, weak U.S. industrial production, and slower growth in exports to slumping European and Asian economies.

"It is going to be an uncomfortable several quarters to go from a macroeconomic standpoint," said Hooper, who is also Deutsche Bank AG's chief economist.

Yet another key factor that could push the economy into a recession is tightening of lending conditions in the banking sector, Hooper said.

"What we are facing is a housing market continuing to decline, home prices still falling, great uncertainty still about the valuation of assets in certain parts of the banking sector as investors require more capital," Hooper added.

The ABA economists suggested that the Federal Reserve may be forced to cut interest rates further.

"If we're headed into a recession, certainly there'd be greater pressure in that direction," Hooper said.

Earlier in the day, the Fed and other central banks made almost $200 billion available to ease the liquidity problem.

The Federal Open Market Committee authorized a $180 billion expansion of its temporary reciprocal currency arrangements -- also known as swap lines -- to allow banks to borrow more dollars in money markets at lower rates. The Bank of Japan, Bank of Canada and Bank of England also authorized new swap facilities through Jan. 30, 2009.

President Bush today called the coordinated efforts "necessary and important."

"The markets are adjusting to them," Bush added. "Our financial markets continue to deal with serious challenges."

In morning trading, the Dow Jones industrial average soared more than 377 points, or 3.4 percent, from its opening mark. Both the Nasdaq and the S&P 500 indexes were up about 3 percent.

The rally followed the U.S. Securities and Exchange Commission's ban today on short-selling 799 financial stocks. The ban is effective through Oct. 2, but it could be extended for up to 30 days, SEC officials said in a statement.

Meanwhile, the Treasury Department today established a temporary guarantee program for the U.S. money-market mutual fund industry. For the next year, the agency will insure the holdings of a publicly offered eligible money-market mutual fund -- both retail and institutional -- that pays a fee to participate in the program.

Concerns about the net asset value of money-market funds falling below $1 per share spurred the move, agency officials said. The program will be financed with up to $50 billion from the Treasury's Exchange Stabilization Fund, which was established in 1934.

In a speech today, Treasury Secretary Henry Paulson said U.S. policymakers and regulators must take further action to comprehensively address what he called the "underlying weakness" in the financial system -- illiquid mortgage assets that have lost value.

"These illiquid assets are choking off the flow of credit that is so vitally important to our economy," Paulson said. "When the financial system works as it should, money and capital flow to and from households and businesses."

Paulson vowed to spend the weekend working with members of Congress to examine legislative approaches to alleviate the pressure of bad loans on the financial system.

Capitol Hill connection

The U.S. unemployment rate rose to 6.1 percent in August, according to the Bureau of Labor Statistics' latest report. The unemployment rate is up 1.4 percent over the past year, with most of the increase occurring during the past four months.

Indeed, the ABA committee said the lack of credit is already suppressing consumer spending by about half of a percentage point.

"The United States is in an economic tailspin," said Rep. Ed Markey (D-Mass.), whose Select Committee on Energy Independence and Global Warming hosted a hearing yesterday entitled "The Green Road to Economic Recovery."

Markey and other Capitol Hill Democrats are touting an energy bill the House passed this week as an economic elixir.

The legislation, H.R. 6899, relaxes coastal leasing bans to allow drilling farther than 100 miles from the Atlantic and Pacific coasts, and within 50 to 100 miles if coastal states agree to it. The bill also rolls back roughly $18 billion in oil industry tax breaks to fund renewable energy and conservation programs, such as tax credits for wind and solar projects, efficient homes and plug-in electric cars.

"These measures are a downpayment on building America's future economy, the critical first steps toward economic recovery," Markey said.

Not everyone sees it that way.

Rep. James Sensenbrenner of Wisconsin, the committee's top Republican, said Congress should allow actions by the Treasury and Fed to take effect before putting more taxpayer dollars at risk.

He charged that the legislation relies on higher taxes as a means to pay for government-supported job programs.

"The question is whether a program to promote green jobs is the tonic our ailing economy needs," Sensenbrenner said.

The bill faces major hurdles. The White House has threatened a veto over repeal of oil industry tax breaks, a national renewable electricity mandate and other provisions.

Renewable energy investors are certainly hoping that Capitol Hill and the White House come to an agreement. The resumption of tax credits would at least bring some stability to a market climate dominated by fear and uncertainty.

Most are still upbeat about the long-term prospects for renewables. Growing electricity demand and tighter fossil fuel supplies ensure a robust role for solar, wind and biomass in future grid development, analysts say.

But in the near term, market experts are saying they expect almost all sectors of the economy to lose out, including the green economy.

"Credit is tightening everywhere," Michael Moran, vice president for global investment research at Goldman Sachs, said at a green-business panel discussion yesterday. "Is it a risk to the financing of green energy? Sure. Is it a risk for the financing of almost everything? You bet."

Burnham reported from Washington.