

continues her sellless works in the guise of Challenger? We pinched ourselves and plummeted back to reality. Challenger can pay fees out of its own resources to financial planners and platforms so that they are not an

withdrawal, so you a better start brushing up on your actuarial valuation methods to work it out for yourself. Then you might have an idea of just how "significantly less" your original capital might be.

about financially engineered products is that the developers actually get you to make your life more complicated than it need be. With this product, the fund produces tax-deferred income, which reduces the cost base of

engineered hybrid mutant.

Peter Haggstrom is managing director of Independent Strategies and Bill Raffie is an independent adviser with Bennelong Private Wealth.

# Investors sit tight until smoke clears on energy

The continued lack of a carbon price is limiting investment options, writes **Kate Burgess.**

## Supercharged

Renewable energy stocks to watch

|                               | Ceramic Fuel Cells  | Silex Systems   | Dyesol   |
|-------------------------------|---|---|--|
|                               | Develops generation units that make electricity and heat from natural gas and renewable sources for domestic use. | Manufactures solar photovoltaic panels that use sunlight to generate electricity. | Develops paint on solar dye that uses a process similar to plant photosynthesis to generate electricity. |
| Share price growth (2009-10*) | -8.82%  | -23.33%   | 18.08%   |
| Market cap                    | \$190.53m   | \$674.82m   | \$145.73m  |

\*S&P/ASX Small Ordinaries returned 13.17 per cent

SOURCE: BLOOMBERG

**T**he outlook for renewable energy companies was boosted by reforms that improve revenue prospects but the continued lack of a carbon price limits investment options for the average punter. Investment dollars will not roll into renewable energy technologies until a carbon price is introduced and more is known about energy policy.

Julia Gillard, as part of Labor's election platform, has promised money for power lines to connect renewable energy generators to the national grid. This will give a big fillip to companies that own generating sites that are not yet connected, such as geothermal generators in South Australia. The Coalition is yet to articulate a clear climate change policy.

Labor's plan to connect renewable energy sources to the power grid is still some years off and technical and practical issues are yet to be overcome.

Share prices of renewable energy companies rose in June with the government's decision to split renewable energy targets (RET) into small and large scale, meaning there was more support for large projects.

In effect, large-scale developments do not have to compete with household energy

production from solar panels or solar hot water.

The new rules favour large renewable energy providers with developed technologies, says Australian Clean Tech Index managing director John O'Brien. "RET will drive almost entirely wind in the short term, and there is only really one listed wind farm company, Infigen Energy."

Solar and geothermal power, which require millions of dollars to be invested before large-scale projects can be built, may miss out on the RET, which aims to have 45,000 gigawatt hours of renewable energy generated in Australia by 2020.

Established renewable energy providers face a more stable future than small companies with embryonic technologies.

"The outcome of the revised renewable energy credit legislation provides the required certainty for large-scale renewable energy but has left small-scale renewable

energy with more uncertainty than the industry would like," Wilson HTM analyst Jenny Cosgrove says.

Less established operators are especially vulnerable because many are reliant on government grants. The geothermal and wave energy sectors are hanging out for another round of funding after the government's \$35 million renewable energy development program was distributed last year.

The real problem, O'Brien argues, is the lack of different options to suit various investors, from super funds through to venture capital and hedge funds.

"There are a variety of risk-return profiles possible, from wind farms with stable, low-risk, low-return cash flows to developers of solar technologies," he said. "But there is not enough in the low-risk sector in which to invest."

The performance of ASX-listed clean technology companies has been tragic in the past year. The Australian Clean Tech Index

fell 32 per cent in the 2010 fiscal year, way behind the broader sharemarket indices. The S&P/ASX 200 gained 11.8 per cent and the S&P/ASX Small Ordinaries Index added 10.5 per cent.

The Prime Minister indicated the government would revisit the scrapped carbon pollution reduction scheme, but not before the scheme has been put to a citizen's assembly. This is likely to take at least 12 months but will be combined with policy that rewards businesses for early action on climate change, a crucial omission of the original CPRs.

Early action from businesses will centre on energy-efficiency measures likely to create a range of future investment options, as companies are established to develop new technologies.

"For now, investing in renewable energy is a niche retail investor proposition," O'Brien says. "Having a price on carbon is going to have an important effect. Energy-

efficiency projects are waiting on the shelf."

As technologies such as photovoltaic solar panels mature, the risk of investing in early-stage projects will decrease.

There are encouraging signs from state governments on renewable-energy policy, which should translate to more retail investment opportunities.

The renewable energy industry is also campaigning for a feed-in tariff to apply to renewable energy generators, meaning they would be paid for feeding power into the grid. Their only source of revenue is the trade in renewable energy certificates (REC) issued for each kilowatt of power they generate. "Dirty" power generators, such as coal and gas plants and big industrial electricity users, must offset their carbon emissions by buying RECs.

Big electricity producers are also being constrained by the lack of a climate change policy. The Energy Supply Association of Australia found that the estimated capital expenditure planned for power utilities in the next five years has dropped to \$8.2 billion in 2010 from \$18 billion in 2009.

Utilities such as Origin Energy and AGL have been buoyed by the RET legislation because it means greater revenue for their wind farms. But the prospects of reducing carbon emissions is limited if their capital expenditure plans are constrained.