pipeline clean energy

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INTERVIEW: Waste, distributed energy and fossil fuel efficiency offer opportunities for low tech-risk clean investment

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Waste sectors are perfectly suited for New York-based private equity firm NewWorld Capital's investment approach, Managing Partner Everett Smith told Clean Energy pipeline.

NewWorld is assessing a hugely diverse range of sectors in which to invest its new fund. Clean Energy pipeline reported on Thursday that the $300 million fund will target clean and sustainable investments that carry low technological risk.

The firm is looking to identify developed small to medium-scale businesses with low technology risk in its five main investment segments of energy efficiency, clean energy, water resources and reclamation, waste-to-value and environmental services.

Smith cited the example of wastewater treatment, but said NewWorld Capital has no intention of investing in early-stage technology that requires expensive plants to be built. Instead, it is more likely to invest in distributed wastewater or waste to energy projects.

"If you look at wastewater management you will find that capacity for systems is constrained at a lower level than demand, so people are doing pre-treatment to alleviate the load," said New World Capital Partner Lou Schick.

"Companies providing on-site services are doing something fairly old-fashioned where the technology has been around for 30 years, but the business and operations and maintenance techniques are still evolving."

Another sub-sector of interest for NewWorld Capital is electronic waste, a growing sector where there are significant opportunities to buy well-run businesses with access to high-end resources that can be used for alternative purposes.

While conventional grid-connected clean power projects fall outside NewWorld Capital's area of interest, the firm is still keen to explore distributed energy, which it feels can potentially offer higher returns.

"What people don't tend to talk about is transmission and distribution costs, which are starting to be higher than actual energy costs," said Schick. "This means a purely distributed cogeneration energy portfolio can be very attractive even though it looks expensive to install. We will look at companies that are in position to develop project portfolios."

Distributed solar energy installed on capital-light terms is another area where NewWorld could leverage its experience to assist companies finance development in a creative manner related to customer acquisition and installation costs.

In the energy efficiency market, NewWorld will look to invest in companies that can address immediate needs in the commercial and industrial markets. Schick said it would be incorrect to say NewWorld will invest in the smart grid, dismissing the term as too broad an umbrella for a diverse array of services that encompasses cutting-edge high-risk technology and older, established forms of efficiency.

"Smart grid was a buzz word created by people new to the grid," he said. "The big challenge of energy efficiency is how to monetise it.

"We don't expect to build a new backbone for utilities, but we are attracted to the idea of investing in companies that have created building management systems and making them inexpensive, robust and web-based, getting them into shops and reducing OEM costs so they can scale down from serving one million square foot buildings 100,000 square foot sites.

"These offerings look like smart grid but the growth driver is the opportunity for real value creation. Old building management systems can be replaced from scratch with cheaper, more efficient versions without the need to introduce radical new technology."

NewWorld Capital's investment strategy does not rule out incorporating fossil fuel technology if it can realise energy savings at a cheap cost. Schick cited the example of investing in a fossil fuel plant co-fired with biomass as potentially more cost-effective than building a new, dedicated biomass power project.

"To build a biomass plant we have to get permits, build it, provide all the fuel and run it under conditions that are not terribly favourable," he said.

"However, if we take an existing fossil fuel plant as a boiler and mix in 10% of biomass, you have taken the cost of burning the biomass down and the cost of electricity lower than a purpose-built biomass facility."

In addition to offering cheaper efficiencies in tandem with renewable energy sources, the fossil fuel industry also represents a major market for environmentally sustainable service providers, which are a viable investment prospect for NewWorld Capital.

Everett Smith said: "Any time someone is using a conventional approach it creates an opportunity on the clean side. For example, as long as people are going to frack for conventional fuel, that will create issues around water and wastewater treatment and that creates opportunities for firms like ourselves."

Investors interested in NewWorld Capital's new fund should contact Carter Bales, Chairman and Managing Partner, at carter.bales@newworldcapital.net.

Contact the reporter about this article: *Ronan Murphy* at ronan.murphy@vbresearch.com.

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