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How to build a renewable energy company

Wind, solar, hydro and geothermal may be rising energy plays, but building a company around them isn't easy. John Carson, CEO of Alterra Power Corp., offers up his lessons learned on the frontlines of green energy

By Brenda Bouw

The renewable energy sector has taken its fair share of blows in recent years. It was hit especially hard in the crisis of 2008, as financing fell off in the bank credit squeeze and investors moved to lower risk, less capital-intensive ventures. But the industry is staging a comeback and global forecasts point to a much brighter future. The International Energy Agency, for example, says renewables are now the fastest-growing power generation sector. It further estimates renewables will make up almost a quarter of the global power mix by 2018, up from 20% in 2011. Non-hydro sources such as wind, solar, bioenergy and geothermal will climb to 8% by 2018, double the total in 2011. Meantime, some governments are starting to offer more incentives for investment in the sector to show their support for a global reduction in greenhouse gas emissions.

But even in this improving environment, it takes more than erecting windmills or planting solar farms to build a sustainable company in renewable energy. Strategy is critical. So are scale, discipline and efficient decision-making. Just ask John Carson, CEO of Alterra Power Corp. (TSX:AXY), a Vancouver-based renewable energy firm with assets in North America, South America and Europe. Formed in 2011 with the merger of Magma Energy Corp., a geothermal outfit, and Plutonic Power Corp., a run-of-river hydro and wind company focused on B.C., Alterra today owns or partners in a diversified portfolio of power-generation projects, covering wind, solar, geothermal and hydro technologies. It is also active in both early- and late-stage development projects. The path to its current status, however, has presented its share of challenges. Here, Carson discusses lessons he has learned about building and running a business in an important—and growing—energy sector.

Diversification counts. John Carson joined Magma Energy as executive vice-president in March 2011, just one month before the company announced its merger with Plutonic. (He became CEO seven months later.) At that point Magma, founded in 2008 by mining entrepreneur Ross Beaty, was still focused on geothermal, specifically holdings in Iceland. But it had become clear to the firm that growth and sustainability depended on broadening its base. Plutonic was in a similar boat. As a small firm, it only had so much reach.

Today, as a unified company, Alterra has greater ability to play across a wider number of jurisdictions and energy platforms, Carson says. That helps the company hedge its bets if one economy, or one energy source, hits a slow patch. “If you lock yourself into one domicile—and if that domicile hits the pause button—your growth is paused,” Carson says. “If one resource wanes, the other can carry you. You diversify your exposure.... It helps so much in giving investors confidence that, if one thing goes wrong, you have five other things going right.”

Size matters. As a larger entity than its predecessor firms, Alterra has the heft to capture more opportunities for growth, Carson says. “The bigger you are, the easier your financing opportunities, the more attention you’re going to get, the greater your market liquidity on the exchange, potentially.”

Indeed, while markets have been challenging, and Alterra’s stock price has been depressed over the past year, the company has pulled off a few important transactions. They include a joint-venture agreement signed recently with Fiera Axium Infrastructure Inc. for the 62 MW Jimmie Creek hydroelectric project in southwestern B.C. Alterra also purchased the 204MW Shannon wind project in Texas, and recently entered into an agreement with a large energy infrastructure fund as a potential equity partner. Both projects are considered large for their respective technologies. “Even though we are a smaller company we are taking big swings at big projects,” Carson says.

Work with your board. A company’s ability to be nimble in decision-making is often based on the responsiveness of its board of directors. Carson believes being proactive with the board is key. That means keeping directors in the loop on pending decisions and, where possible, getting board blessing early in the process on how to respond to various scenarios. “You need room to play,” says Carson. “Be very forward-thinking and proactive... so you don’t have to go back to the board each time and say ‘Mother may I?’”

Know your niche. Instead of competing for an operating project that might be on the block, Alterra prefers development-stage assets, where the company can add more value, Carson says. He describes this as the stage where the company is still finalizing project contracts and getting its financings organized and structured. Examples include the recently purchased Shannon wind project and the Jimmie Creek hydroelectric project. “We could choose operating projects, but it doesn’t play to our skill set,” Carson says. “We pick the ones where we have the skills to respond most appropriately...it’s really about choosing your battles, what you’re good at and being smart about it.”

Your first option isn’t always the best one. When financing new projects, don’t take the first offer that comes through the door, Carson says. It’s important to find the right fit. For example, there are a number of investment options from infrastructure and pension funds to insurance and mezzanine lenders, as well as tapping equity markets. Carson says Alterra isn’t currently interested in equity financing, believing its stock price (as of the spring of 2014) is too low. He says companies need to weigh all of their options and pick the smartest and cheapest one on the table. “Don’t take the first one that comes along and make sure you’ve talked to a lot of people,” he says. “The first and seemingly easiest methods of gaining capital might not be the best at all...There is good capital in many forms.”

Be a good corporate citizen. “We’ll never be a bridge-burner because there is always a tomorrow,” Carson says. That means when negotiating with communities, governments or investors, the company doesn’t like to let either side to go to bed angry. “I find out what’s least painful for me and least painful for her or him and we get together and make a deal,” he says. If you focus too hard on winning a given point, there’s a risk of alienating the other party, and in turn, other stakeholders down the road. “Word gets around,” he says. “The power industry is a very small community.”

We’re all adults now

A new report from Deloitte shows how the oilsands can come of age

IF THE OILSANDS were a person, they would be an awkward teenager taking his or her first steps toward adulthood, according to a new report from Deloitte LLP. They are poised to “come of age,” but the path to maturity is obscured by challenges, including rising costs, greater environmental scrutiny and a skills shortage.

Admittedly, the report’s metaphor is a reach, but the content rises above the poetry. So, how can the oilsands successfully fledge? By following “rites of passage,” among them:

Fitting in. At earlier stages in its development, the oilsands industry focused on growth at all costs, Deloitte says, a mentality that increased costs. Today, the focus should be on profitable growth. The central challenge? Higher profitability through measured growth.

Negotiating peer pressure. The oilsands face competition for skilled workers from B.C.’s burgeoning LNG sector. Companies should develop collaboration strategies on this issue so that competition occurs between energy plays rather than between oilsands producers themselves.

Finding yourself. Innovation is great, but imitation also has its virtues. For starters, it’s cheaper. Research indicates costs for those who borrow ideas can be 60% to 75% lower than for those who innovate. The key, however, is not merely to copy, but to integrate good ideas from a variety of sectors into successful formulas that meet a company’s individual needs.

Stand on your own two feet. Just as a young adult must learn to balance life and work, oilsands companies must develop systems and practices that balance with market demands, Deloitte says. Asset management plays a major role, as maintenance accounts for about half the costs of bitumen production, according to the Canadian Heavy Oil Association. Savings from effective programs can be steered toward growth. Developing clear procedures can facilitate this process.