



Meet The Manager

Powerful Investment Strategy

An interview with Energy Investors Funds' John Buehler which appeared April 24, 2006 on PrivateEquityCentral.net. Reprinted with the permission of PrivateEquityCentral.net.

With record-setting oil prices being set in the last week, it is appropriate for us to turn our attention toward the energy sector. With that in mind, John Buehler, a managing partner at Energy Investors Funds, talked with PrivateEquityCentral.net about what his firm does and where we can expect to see the sector in the near future.

PrivateEquityCentral.net: Your firm recently announced it was planning on building two power plants in California with PG&E. What was the attraction to doing this deal now?

John Buehler: It is very exciting because it gives us an opportunity, as a private equity fund, to link up with a developer, and to actually have the chance to go in and negotiate with power purchasing agents, which is the predicate for how you build a power project in the United States. We'll also have them as our customer and ultimately our partner since they led the contract, and then we'll sell them the electricity. So, this is a pretty interesting innovation for private equity. We have always used our capital to be deployed at the early development stage to provide construction equity and then to buy operating assets. Smaller amounts go into the development side. These two projects are classic examples of development loans that turned into development opportunities.

PEC: In light of recent record oil prices, energy certainly seems to continue to be an active market in which to invest, no?

JB: I took my car to the pump today and the prices [for gasoline] already jumped about 15% overnight. I blew it by not going in to fill up the car last night. I guess you're right. Oil prices have, on a shadow basis, a pretty dramatic effect on the commodity markets of the U.S. Renewables are sort of the basis for the largest operating costs in power plants, be it coal or gas or whatever you're thinking of converting from raw fuel to electricity, our markets respond pretty dramatically and directly to what gets announced in the Middle East.

PEC: We have covered your fund for a while now and it seems to be among the most active. What do you attribute this to?

JB: As the first guys on the block, we established our first private equity power fund in 1987, we have the longest history. That means we have the longest history of relationships with people. We're now independent and we are able to pull the string on investment considerations and investment proposals and make decisions on a much quicker path. Private equity now has a pronounced and solid place in the market of power development through operations and development and is a recognized piece of funding in the U.S. The market in the U.S. for power plants is that about 40% of our power projects are at least 30 years old and they need to roll those projects over and build some new ones are more efficient and more environmentally benign. We also do the deals ourselves and we do not participate in auctions.

We like to do deals with developers where we go to somebody with whom we have a history. We negotiate directly. We are not developers. We do not operate power projects, but we do oversee development and operations and we do own 100% of our power projects. There is absolutely a need for somebody to supply capital at every stage. I think building a portfolio, the way we have built the portfolio, not by acquiring other portfolios, but by putting a portfolio together from the bottom up, asset by asset, helps us on a regular basis. We try to rationalize the next decision by the previous decision we've made. I think, overall, what that means is our investment strategy today is almost exactly the same as it was in 1987. We haven't changed. People know who we are and how we respond, what a capital resource we are and what kind of partners we are. That has been very helpful to us.

PEC: Where do you see your fund and the energy sector being in the next few years?

JB: A symptom of what we see in the marketplace is the opening up of privatization of transmission systems. I think we will see an increase in the total number of megawatts attributable from renewable energy projects. About half of the states right now have something called renewable portfolio standards, which increase the percentage of renewable energy projects in the utilities' basket of assets.

PEC: Is this an area in which your fund is going to be active?

JB: Absolutely. We have closed on wind deals. We've closed on the acquisition of a bio-mass plant. We've closed on a broad portfolio of hydro plants. We probably have [as many as] 13 renewable assets in the last five months. That will increase because - state-by-state, whether there is adopted protocol or not - there are more [states] beginning to acknowledge the fact that there is an issue with the cost of fuel that we all pay for. [There is a need] to change both the cost problem and the environmental problem. The market is beginning to get that.

PEC: What does that mean on the private equity side?

JB: You'll see more venture capital-type money being funneled into things such as clean-tech funds and clean energy funds. There is already today a dramatic increase in the number of clean-tech funds from the last couple of years. Institutional investors are interested in that. That will inspire another network of private equity investment. I see that happening in the next three to five years as well. National policy indications are also such that we should be thinking about this.

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