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Soaring price oils wheels for green power

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Sarah Hall's novel The Carhullan Army, which won this year's John Llewellyn Rhys prize for literature, paints a bleak portrait of a world where the oil has almost run out. Set in the not-too-distant future, the Orwellian novel describes a Britain run by a dictatorship called the Authority, where electricity is rationed, the miserable population subsists on tinned food and mountain-dwelling outlaws revert to subsistence living.

Last week, in the real world, the price of oil finally went through the $100 a barrel mark, and was a whisker away from breaking the all-time record price of $101.70. While Britain is not about to turn its back on oil and become a dictatorship as a result, it makes investing in clean energy a better bet.

Lord Oxburgh, the former chairman of Shell who now heads Aim-listed biofuels company D1 Oils, says: 'We are quite a long way from anything we can describe as a "post-oil world". But $100 a barrel makes a heck of a difference.'

New Energy Finance estimates that last year, the amount invested in the clean energy sector grew to $117bn, up 41 per cent from 2005 and much more than expected. It now accounts for 10 per cent of the energy market globally.

Biofuel technologies are direct substitutes for oil, so the higher the price of the black stuff, the more attractive they become. Oxburgh says that biofuel from the non-edible plant jatropha is economic at $70 a barrel. But because it takes several years to build a refinery and harvest the crop, investors are nervous about gambling that oil prices will remain high.

'Biofuels need subsidy because no one is going to invest unless they are confident it will be economic,' he says. 'That depends on the price of the competing fuel, oil.'

Other clean forms of power generation, such as solar and wind power, compete with gas-fired electricity plants, whose costs go up when oil prices rise.

According to Green Econometrics, solar energy costs about five times more than oil-powered generation. But Dipesh Shah, chairman of solar company Jetion and of Hg Capital's renewables investment fund, says that solar should become price-competitive with fossil-fuel power generation during non-peak times in the mid-2020s.

'If oil stays at over $100 over the next two decades,' he adds, 'it would [redacted]

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conventional generation, forward by up to a decade.'

While rocketing oil prices are a useful incentive to put money into clean energy, green investors say that it's just icing on the cake. Steve Mahon, chief investment officer of the Aim-listed environmental fund Low Carbon Accelerator, says his investments are economic if oil is at $40-$50. 'In general high oil prices or high carbon prices are just a way of making significantly higher profits.'

Governments' increasing fears about being reliant on importing oil from unstable regimes and about climate change are bigger boosts than the price of oil. They are the main drivers to create a global price for emitting carbon dioxide. Companies that can generate electricity without emitting carbon dioxide will be financially rewarded. 'Dirty' generators, such as coal and gas plants, will be penalised under schemes like Europe's Emissions Trading Scheme, which charge companies for the right to emit carbon dioxide.

Rather than gamble that oil prices will go higher and stay there, green investors are betting that the price of carbon will rise. This should be a safer bet than volatile oil prices, as governments influence the carbon price by deciding how many permits to distribute.

Brian Count is chairman of Progressive Energy, which wants to build a clean-coal plant with Centrica using an expensive new technology to reduce CO_2 emissions called carbon capture and storage (CCS). 'High oil prices are good for Progressive Energy,' he says. 'But the main driver for CCS is a high carbon price.' He wants the government to fix a price for carbon to make CCS economic.

It is possible that governments may decide that stopping climate change is no longer a priority, cut subsidies and dismantle the carbon markets. In the US, wind farm developers are anxious that tax credits which expire next year will not be renewed. But with talks to replace the Kyoto protocol having started in Bali last month, government support for low carbon technologies is increasing and is unlikely to weaken.

There are other risks to investing in clean energy. Vincent Tchenguiz, the property tycoon who is raising a new £1bn environmental fund, says that such investments are best suited to private investors rather than the listed market. 'Many are long-term investments which have to prove themselves and don't provide immediate returns. Most stock market investors don't understand them.'

Michael Liebreich, chief executive of New Energy Finance, points out that the clean energy sector is a more crowded market than five years ago. Like any new investment craze, clean energy has thrown up its fair share of duds and not every company is a sure bet. 'As an investor you have to pick your winners carefully,' he warns.

So while green investors were certainly toasting $100 a barrel last week, they know there is no guarantee the price will remain high. As Mahon from the LCA says: 'An environment where fossil fuels are more expensive is good for our business. But there is no direct link between investing in all renewables and high oil prices.'