



I N D U S T R Y   U P D A T E   J A N U A R Y   2 0 1 2

## Warren Buffet Buys \$2 Billion Renewable Energy Project

### The world's most successful investor owns plenty of wind, goes for solar too

Warren Buffett's MidAmerican Energy, one of the largest wind power producers in the United States, is investing in solar energy. Last December, MidAmerican purchased one of the biggest planned solar facilities in the world, the Topaz Solar power development in San Luis Obispo County, California. It's a \$2 billion project. A week later, MidAmerican acquired a 49% stake in NRG Energy's \$1.8 billion Agua Caliente solar project in Yuma County, Arizona.

MidAmerican Energy Holdings has \$46 billion in assets and millions of customers and is the largest supplier of electricity in Iowa, Wyoming, and Utah. MidAmerican began installing wind turbines in 2004 – without raising its electric rates – and now produces more of its energy from wind than any other utility in the United States. As of December 2010, approximately 20% of its power was being generated by renewable resources. Iowa, where most of MidAmerican's wind power generation facilities are located, now produces 20% of its electricity from wind and is second only to Texas in installed megawatts (MW) of wind power. Buffett has built up this wind power capacity with little fanfare.

In MidAmerican's 2011 annual shareholder letter, Buffet said the utility would have 2,909 MW of wind generation by the end of 2011, with a total investment in wind of \$5.4 billion. He said the company is able to make this kind of investment because they do not pay their earnings in dividends.

#### **Berkshire Hathaway's Got Perspective**

The investment in solar by one of the Berkshire Hathaway companies gives a better outlook on the health of the renewable energy industry than media coverage has lately. While the news was filled with the Solyndra failure last year, it was not often mentioned that the \$535 million federal loan guarantee Solyndra received was not a huge fraction of the \$17 billion allocated overall to the two-year clean energy stimulus program. (Compare this allocation to the \$72 billion in federal subsidies for the fossil fuel industry from 2002 to 2008<sup>1</sup>, many of which subsidies have been in place for a hundred years.) While it may be prudent to cap the guarantee that can be awarded to any single company, the Solyndra debacle was hardly the scandal the media made it out to be. Paula Mints of Navigant Consulting pointed out what should be obvious: "In every technology, some companies will make it, and some won't, but if you want [a] technology to continue to improve, get more efficient, and make a difference to the environment, there has to be investment."

The large investment made by MidAmerican is an excellent affirmation of the potential of clean energy investment as a means to capital gain. Greg Abel, Chief Executive for MidAmerican, maintains that the Topaz project "demonstrates that

<sup>1</sup> *Estimating U.S. Government Subsidies to Energy Sources* Environmental Law Institute Sept. 2009

solar energy is a commercially viable technology without the support of government loan guarantees.”<sup>2</sup> Google and investment firm Kohlberg Kravis Roberts & Co. apparently agree, having recently teamed up to develop four new solar energy farms at a total cost of \$94 million.

And solar is still considerably less commercially viable than wind is.

### **We’re With the Oracle of Omaha**

It goes without saying that the economic downturn of the last few years dried up private capital to a degree. We are nevertheless not surprised that Continental has been so successful in attracting investors, in spite of starting up in 2008 just as the great recession began. The market for renewables is wide-spread, and the market for midsize wind turbines in particular, is huge. China is investing 10 times as much in young clean energy companies as the United States. If the U.S. is going to remain globally competitive, it is promising to see someone as high-profile as Warren Buffett continuing to invest in renewable energy.

### **Postscript**

On February 10, the Administration released an independent review of the Department of Energy’s clean energy loan guarantee program, conducted by John McCain’s former National Finance Chairman and former investment banker, Herb Allison.<sup>3</sup> The review concluded not only that the program has worked, but also that the DOE structured the portfolio of projects to have very low risk (using substantially the same credit criteria that would be used by the private sector) and will cost \$2 billion less than initially expected.

---

<sup>2</sup> <http://articles.latimes.com/2011/dec/07/business/la-fi-buffett-solar-20111207>

<sup>3</sup> [http://www.whitehouse.gov/sites/default/files/docs/report\\_on\\_doe\\_loan\\_and\\_guarantee\\_portfolio.pdf](http://www.whitehouse.gov/sites/default/files/docs/report_on_doe_loan_and_guarantee_portfolio.pdf).