Seeking Alpha$^{\alpha}$

Will Interest in Alternatives Continue if Oil Goes Down?

Aug. 06, 2008 11:02 AM ET | OIL-OLD, DBO, SMOG... | 12 Comments

This segment was taped at the American Stock Exchange, which offers trading across a full range of equities, options and exchange-traded funds.

Mike Norman, anchor, HardAssetsInvestor.com (Norman): Hello everybody and welcome back once again to our HardAssetsInvestor.com interview series. I'm Mike Norman, your host. Today my guest is Ed Mitby, senior research analyst at Van Eck, and we're going to be talking about alternative energy. Ed, thanks a lot for coming here; I appreciate it.

Ed Mitby, senior research analyst, Van Eck (Mitby): Thank you.

Norman: Alternative energy - that's a phrase we're hearing a lot of recently. Certainly you look at the environment, with skyrocketing energy prices, oil and gasoline, and alternative energy has really come to the forefront. Let's just get an overview: What are we talking about here? Wind, solar, ethanol? What are some of the forms of alternative energy?

Mitby: The biggest-known forms in terms of alternative energy would obviously be wind and solar. Another aspect to alternative energy is definitely nuclear. Some people actually consider coal alternative energy. You can make the distinction between clean energy versus alternative energy, which a lot of companies are working on. Potentially clean coal technologies would make that source very viable.

Norman: In the past, we've seen periods when oil prices spike up, and clearly, it's understandable why we're hearing all this talk about alternative energy now given the historic rise in oil prices and gasoline prices. But will it be like in the past? That is, if oil prices come back down again, will this momentum towards developing alternative energy fade away?

Mitby: We don't think so, and that's not what it looks it. The prior oil shocks, mainly in the 1970s where this kind of reaction happened, that was a man-made shock. It was artificial from the standpoint that it wasn't real and it was completely controlled by what the producers were doing. This time it is more structural. I think the world has basically realized that the production of oil … it is a finite resource … and whether it is running out now [or not], it is going to run out sooner or later.

Norman: Isn't there another element going on here? That is, it's not merely an oil price story. Oil is now perceived as a dirty fuel; it adds to carbon emissions. Isn't there this whole green movement going on, where we're looking for cleaner forms of energy that don't contribute to greenhouse gases?

Mitby: That's exactly right. There have been multiple studies, and a lot of people fight about the environmental impact [of carbon emissions]. [But] I don't think there's any doubt that the environment or weather patterns have become more random in the last decade or so. I don't know about warming - people will say it's warming, but there are other people who say there is no warming, and statistically it's hard to tell at this point. But the weather patterns have definitely become more unpredictable I think in the last 10 or 20 years.

You definitely have two aspects: obviously the costs to the economy are huge by rising energy prices, and

electricity generation, or is it now with the ethanol that perhaps can be used as an alternative for gasoline?

Mitby: Ethanol is problematic, I think, in that it competes with food resources, so there are a lot of political problems with ethanol. Where I think you'll see your biggest advances in alternative energy will be in electricity, [in] generating power, because that's where wind can come in, that's where solar can come in. Ultimately I think a big solution in the energy problem could be the electric car; in fact, it probably will be. And in that case, you will need more electricity.

Norman: That seems clear. Now are we preparing for this? I'm sure everybody has seen it, the Boone Pickens commercials with the windmills. Is the wind-generated electricity the fastest-growing area in this electricity-generation segment?

Mitby: In the United States, wind is definitely the fastest-growing segment at this point. The growth is phenomenal at this point, probably 20 to 30% growth per year projected out for at least the next four or five years. The problem with wind is it needs a pretty substantial infrastructure built out in terms of transmission lines and power lines, and what they call the grid, to get the power from these fairly remote areas to the more populated areas; say, North Dakota to, say, Southern California.

Norman: I got you. All right, folks, in our next segment with Ed, we will be discussing U.S. energy policy. Do we have a policy in place to foster the growth of alternative energy, and what countries may be more competitive than us? So stick around, stay tuned to this Web site.

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Objectivity

09 Aug. 2008, 11:00 PM

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Modern civilisation requires the well functioning electrical grid to survive. If you doubt that you are clearly not modern, civilised, well, or properly functioning.

Adding capacity to the grid from multiple sources like solar and wind is an insurance policy for all of us... and cheap at any price.

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N

nakedjaybird

08 Aug. 2008, 7:46 PM

Comments (2.86K) | + Follow

alpha24seven - show me the evidence that T&D losses are significant ("tremendous). What's the number and basis?

T&D losses pale in comparison to the energy lost up the stack(s), into the cooling water, and left in the low pressure steam after the high pressure steam has spun the turbine of any standard fossil based plant. All these losses amount to ~70% of the original energy in the fuel, be it coal, oil, natural gas, or any other hydrocarbon that is burned. Only 30% of the original energy is actually converted to electricity. And of that 30%, way less than 10% of that electricty (eg., 3% of the original) is lost in T&D. Prove me wrong!!!

If T&D itself were as large as a 10% loss, then of all the wind and solar generated (say it's the 12 Quads of electrity generated and T&D'd annually today), then we'd need to generate an extra 1.2 Quads of solar/wind to make up for that.

That extra 1.2 Quads pales in comparison to the 30+ Quads of WASTED hydrocarbons burned to generate the equivalent 12 Quads of electricity.

Anyhow, show me the % T&D losses you know about, and your basis.

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A **alpha24seven** 08 Aug. 2008, 12:43 PM

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@nakedjaybird. You do realize that there is a tremendous percentage loss in electrical efficiency when you locate a windmill in Texas and then you load this energy to the grid and eventually somebody in LA flips on their light. Right? In fact the latest estimate to bring the grip up to snuff, modernize and increase efficiency is over $1 TRILLION USD! And that still won't make it as efficient as local generation.

This is why solar is the best option. Increase the efficiencies, lower the cost and the efficiency lost between your roof and your toaster is entirely manageable.

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R **rhj123** 07 Aug. 2008, 12:56 PM

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Sun and wind power both look like something we should be working on. Difference seems to be that sun shines only half-time, while wind blows most of the time...day and night. Grids for distribution are required for both.

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N **nakedjaybird** 07 Aug. 2008, 11:34 AM

Comments (2.86K) | + Follow

Go T. Boone - get those windmills installed AND THEN the solar; stop burning NG and COAL; beef up the electrical grid by 50-75%.

Go Warren B. - electrify those railroads.

Go Bill Gates - give Warren back his money to electrify the inter/intrastate hiways, beltways for people and goods ferries.

And Boone, burn biodiesel instead of NG in those hybrids outfitted with solid state waste heat direct conversion to electrity devices for 100% useful energy.

Now, go to work.

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N **nakedjaybird** 07 Aug. 2008, 11:26 AM

Comments (2.86K) | + Follow

And, for those of you not quite aware: GUESS WHO IS PAYING FOR ALL THAT WASTE!!!!!!!!!!!!!!!

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N **nakedjaybird** 07 Aug. 2008, 11:23 AM

Comments (2.86K) | + Follow

Starting with the published interview above (knowledgable folks) and then most commentators in media including bloggers, etc., we get a lot of discussion about price, availability, clean, dirty, foolish, carbon, global warming, alternativves, generation, transportation, etc., but no one talks about the real problem in BURNING OUR NATURAL HYDROCARBONS (COAL, OIL, NATURAL GAS, TAR SANDS, OIL SHALE);

BURNING THE HYDROCARBONS WASTES 70% OF THE CONTAINED ENERGY (in both power generation and transportation).

That, folks, all you financial guys included, is like throwing away 70% of your profits, or earnings, etc.

For those paying for shipping, it's like wasting 70% of the tanker loads.

For drillers, how would you like to drill 70% fewer holes???

DUH!!!!

Get familiar with this chart: it's your future.\:

static.seekingalpha.co...

caio.

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john s. gordon 07 Aug. 2008, 8:23 AM

Comments (14.01K) | + Follow

there was interest in alternatives during 1974-1980. r.reagan killed all the programs & so interest vanished. work on alternative sources of energy was an insurance policy against future oil shocks of the 1973 and 1979 type. r.reagan said insurance is unnecessary, don't want any. well would your mortgage lender allow you to have a house without an insurance policy?. morons in the white house - we've had 2 of them in the last 28 yrs.
> jack

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Alex Kaplan 06 Aug. 2008, 4:51 PM

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Good points all around here are a few more which are good reasons why alt may no longer be the alternative:

1. The cost of oil includes gov't subsidies that other industries can only dream of and in some cases would not want on their hands (e.g. are gov't fighting wars and dropping bombs for laundromats?) Further, another cost of oil and fossil fuels is pollution and war. Those are very real costs (see below).

2. So whether you believe in global warming or not, oil is dirty. The ecosystem is not so finite that this has no effect on us. Asthma and allergy rates are on the rise globally. So whether we can attribute fossil fuels as the main cause of global warming (and obviously there is a great case for this) it is immaterial. Pollution is a fact and alternative energies are healthier and cleaner. The case for global warming only reinforces this but to the idiots that deny global warming, global pollution is a fact that is undeniable.

3. The geo-political factor: Oil is endemic or specific to regions and particular places. The sun shines everywhere, fairly equally. Wind blows in varying degress in many places but is still more widely dispersed than oil. Bio-mass for ethanol is almost everywhere. Geo-thermal energy can be produced virtually anywhere. So here the solution is always local and less dependent on geo-political factors.

4. Lastly, the distinction between traditional and alt energies will become more specious as today when companies like BP partner with Verenium (VRNM), and as another example companies like GE perform diverse R&D across many energy solutions.

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Salty 06 Aug. 2008, 3:00 PM

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Brazil has built the infrastructure and the ethanol product. Take the US tariff off sugar and watch the corn ethanol prices drop -- and with it all the food products we buy. Ethanol is not finished as a fuel. Just get the government out and let the market work.

Reply Like

Alex Kaplan 06 Aug. 2008, 2:35 PM

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BP partnership with VRNM was announced today...that's a big oil company diversifying their interest by investing in and partnering with a company that uses biomass (not food products) to produce ethanol...so the final word on ethanol is not in. There are alternatives within the alternatives and alot of new and interesting technologies out there. Stop digging for oild, keep digging for other alts...

Reply Like

N

Narlea 06 Aug. 2008, 11:39 AM

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Good article.

I think we need all forms of energy oil, gas, wind, solar, nuke, clean coal or anything else they can come up with. I do agree that Ethanol is problematic and we should drop it.

They should open additional off shore on shore sites and make a % of the profits go into these alternative sources of energy so that in time we are free from oil.

If gas prices at the pump drop below $2.75 we should start increasing the tax and keep the price up use the extra money for alternative sources of energy.

Some day we all should be able to use energy for our autos and homes which are half of what we are paying now. Also the costs of food and almost everything else can be reduced.

Why we allow this risk to our national security and export $750B a year to many countries that hate us is as mindless as our energy policy has been for the past 30 years.

I would vote to take 10 years of $$ pain to be free from foreign energy dependency in order to give my grandchildren a more secure and financially strong country.

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