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Renewable energy gets a lift

Oil above \$50 gives a big boost to alternative energy stocks on the Amex.

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By Steve Hargreaves, CNN/Money staff writer

NEW YORK (CNN/Money) - As oil prices fly ever higher, they seem to be pulling the stocks of alternative fuels with them.

The American Stock Exchange-listed index that tracks alternative energy companies -- the WilderHill Clean Energy Index -- has jumped 12 percent since it started trading in August. Over the same period, the price of oil has risen over 20 percent.

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"The index is in pretty good correlation to high energy prices," said Robert Wilder, who founded the benchmark with an eye toward promoting renewable fuel sources. "Events that spike oil and the increasing viability of renewable technologies that can make it on their own are what's driving our index."

Because the WilderHill index has existed for only about two months, it doesn't provide any historical perspective. But officials at the American Stock Exchange said it is uncommon for a new index to make a jump this large in its first few months.

The index includes 37 companies involved in many aspects of renewable energy -- from generation and storage to delivery and conservation. And although it is grounded by a handful of larger companies -- four firms account for \$53.6 billion of the fund's \$77 billion total market worth -- the larger companies have only averaged a 2 percent increase in stock value since August.

It's probably not the case that oil is the only catalyst behind the rise in the index, since 26 of its 37 stocks trade on the Nasdaq, which has risen 9.4 percent since Aug. 13. Still, some analysts see a connection.

Eric Prouty, director of research at Adams Harkness, a Boston-based investment firm, said that it took the market a while to notice renewable energy companies, but that rising oil prices have energized the stocks in recent months.

"There's no doubt that many of these stocks have done quite well with the price of oil rising," he said.

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And while other factors could be driving the stocks -- including a recently renewed government tax credit for renewable energy and the enactment of the Kyoto global warming treaty -- "I would think oil would be first and foremost in people's minds," he added.

Beyond stocks

Federal Reserve Chairman Alan Greenspan earlier this month predicted that rising oil prices would spur more investment in oil drilling and other extraction technologies, reasoning that high prices would attract investment.

The rise in the WilderHill index may indicate the same is true for renewables -- investors may feel high oil prices give alternative fuels a greater chance of attracting customers and competing in the energy marketplace, thus improving the chances of a healthy return on investment.

Prouty pointed to the popularity of the new fuel efficient Toyota hybrid car, the Prius.

"As (oil) prices stay high, you'll start to see it filter into everyday decisions," he said. "People are trying to get ahead of that curve by bidding up these (stock) prices."

Greenspan also noted expensive oil's effect on dictating consumer choices.

"Unless oil prices fall back, some of the more oil-intensive parts of our capital stock would lose part of their competitive edge and presumably be displaced, as was the case following the price increases of the late 1970s," he said in a speech on Oct. 15.

The correlation could be good news for investors and environmental types alike.

Gary Brandt, chief financial officer at fuel cell maker Hydrogenics Corp., said that while rising stock prices have little effect on the research budgets of companies that are already public, investor excitement can mean big dollars -- and big technological breakthroughs -- for companies looking for capital by floating stock.

Brandt said investors poured over \$1 billion into new fuel cell companies in the late '90s -- money that went in part into research and development that in turn lowered the cost of fuel cells by 50 percent, bringing the relatively clean technology closer to replacing dirtier fossil fuels.

"That didn't happen by accident," he said. "That happened because of the investment made in the sector." ■

Turned on, turned off
Percent change in stock price since August 13.

Gainers		
(ENER)	Energy Conversion Devices, Inc.	↑64%
(BLDP)	Ballard Power Systems Inc.	↑62%
(QTWW)	Quantum Fuel Systems Technologies Worldwide, Inc.	↑53%
(HYGS)	Hydrogenics Corporation	↑31%
(DESC)	Distributed Energy Systems Corp.	↑27%
Losers		
(CPN)	Calpine Corporation	↓28%
(EMKR)	EMCORE Corporation	↓27%
(PWER)	Power-One, Inc.	↓18%
(MGPI)	MGP Ingredients, Inc.	↓10%
(KEM)	KEMET Corporation	↓9%

SOURCE: REUTERS

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