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VCs Look Beyond Clean Energy

Panelists see opportunities in fossil fuels.

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While many VC investors have focused on clean-energy technologies recently, panelists at an energy conference said they also see opportunities involving fossil fuels.

Kevin Skillern, a senior vice president with GE Financial Services, favors electronics and materials, and David Kippen, senior financial advisor for Genoil, said Tuesday he sees demand for next-generation rendering and imaging technologies, as well as technologies—like his company's—to convert lower-value heavy crude oil into light oil for transportation.

From the audience of the Energy Tech Investor Conference in San Francisco, Mark Donohue, a general partner with Expansion Capital Partners, said sensors, monitoring, and controls are ripe for VC deals.

But what about new ways of producing fossil fuels? The panel discussed whether technologies such as coal gasification, gas-to-liquids, tar sands, and shale oil make sense for venture investment.

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-Philip Deutch,
NGP Energy Technology Partners

Playing at the Margins

One risk is that many such technologies are dependent on fossil fuel prices, Mr. Skillern said. "Gasification, as a technology, works if you believe that natural gas will stay at $4 per btu for several years," he said. "You're playing at the margins. These are high-risk kinds of calls."

Perhaps some energy technologies are not really as dependent on oil and natural gas prices as they seem, said Philip Deutch, a managing partner at NGP Energy Technology Partners.

Ethanol, for example, turned out to be less dependent on oil prices than many thought when regulations mandating the use of ethanol went into effect, Mr. Deutch said. "I think more and more of these [mandates] provide the incentive to dig that extra inch."

And yet, investments in other clean technologies, such as fuel cells or solar power, have received much more investment.

"Do people, when discussing fossil fuels, react differently to things that would scare them or not scare them in other areas?" he said. "I think we're being too sensitive to some risk and too accepting of others. I don't think an investor should say one category of risk is, by definition, necessarily unacceptable and immitigable."

Reluctant to Invest

Still, many VCs are reluctant to invest based on policy change, Mr. Kippen said. "They're missing out on an opportunity, because every big industry has some sort of incentives or subsidies to support it," he said.

Another challenge? Cleantech investors might have to overcome a trust gap to get deals in oil and gas, Mr. Deutch suggested.

"I think it's difficult for oil and gas companies to take money from someone who disparages what they do the other 364 days of the year," he said. "I think it's asking a lot."

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