

FINANCIAL TIMES

Global News Wire

February 21, 2006

ENERGY ANALYSIS

By Dylan Ratigan

DYLAN RATIGAN, CNBC ANCHOR: And for more on this "Hot Topic" debate, should the government fund and promote alternative energy technologies, we turn to Sterling Burnett. He's a senior fellow with the National Center for Policy Analysis. He says the government should stay out of the debate. But John Ewen says there is a role for the government. He's the senior vice-president at Ardour Capital Partners. And Mr. Ewen, I begin with you. What do you see the government's role being?

JOHN EWEN, SENIOR VICE PRESIDENT, ARDOUR CAPITAL PARTNERS: Historically, whether it be solar, wind, nukes, clean coal, the government has played a clean role and a good role in getting the dialog open and getting money into the sector to start research plus basically public sector money following on. RATIGAN: What's wrong with that, Mr. Burnett?

STERLING BURNETT, SENIOR FELLOW, NATIONAL CENTER FOR POLICY ANALYSIS: Well, I guess I disagree with his analysis. When we went from coal oil and well oil to oil itself, John D. Rockefeller didn't need a lot of tax credits to get off the ground. He had a product that would run in the marketplace and didn't need help. You have 30 years of subsidies for wind power, for solar power. And they still continue to receive billions in subsidies and they're still not viable in the market absent the subsidies.

If you look at ethanol, ethanol probably would-- right now, might be making a profit because of high oil prices. But more than half the profit from ethanol comes from the subsidies. And it's not clear to me that the government should be picking and choosing winners and losers in the marketplace, especially. RATIGAN: But -- let me get in here, Mr. Burnett -- but what -- doesn't the government have a role to encourage or reduce the barriers for new technologies?

BURNETT: Absolutely. I agree the government has a role to reduce barriers, to get out of the way, but the government doesn't do that with ethanol or -- look at the sin fuels, they poured billions of dollars into sin fuels. When government picks an energy source, not only just government dollars flow there but private capital then follows suit and that forecloses other possibly cleaner, possibly more efficient energy sources. EWEN: Dylan. BURNETT: .because you've got these ideas on the drawing boards, but no one is going to fund them because the government has anointed. EWEN: Dylan, the fact is -- the fact is the money is flowing to a wide range of competing technologies. And ultimately, the marketplace is determining the competitive successes here. And that's why silicon-based solar is starting to compete. It's why multi-megawatt wind turbines are competing. The government is -- if you look at NREL, the ways it's funded even, there's a multitude of technologies that are competing for research dollars. The business line and basically, the

revenues and the robustness of the business models underlying those technologies, unlike drilling oil in Pennsylvania a hundred years ago, this is technology-driven, market-driven technology -- basically business models that out proving themselves out. Very, very different -- very, very, different than drilling the first few oil wells in this country.

BURNETT: I don't understand what he means that wasn't technology driven. It was a new technology. It came out of the market. It produced a fuel that everyone wanted. If you look at ethanol. RATIGAN: Well, that -- you know -- but Mr. Burnett, I don't want to speak -- honestly, I don't want to get into ethanol because, again, ethanol is a wildly -- I see where you're coming from. I've seen the science. That doesn't mean that there shouldn't be some sort of role for the government to facilitate further technology, a, or b, that some of the new technology may not require more of a capital investment, unfortunately, in the short-term than sticking a drill in the ground. And you can't dispute those two facts. I'm not even -- I'm not necessarily disagreeing with you, Mr. Burnett, but I'm simply asking you to acknowledge it. There is some -- there are some distinctions here that we at least have to put on the table and talk about.

EWEN: On the trajectory of most technologies, they start less efficient and they migrate to being more efficient. The first cars that were -- a hundred years ago are not as efficient -- were not as efficient as the cars today. The first, you know, multi-kilowatt wind turbine, are not like a multi-megawatt turbine of today.

BURNETT: There's no. EWEN: And. BURNETT: .question about that. But the question is does government need to be in the funding of it to make it more efficient. EWEN: Many times people follow. BURNETT: .cars. EWEN: . many times people follow the role the government takes. And just the fact that we're talking. BURNETT: Well, that's not here. EWEN: . the fact that we're talking about. (CROSSTALK)

RATIGAN: Hold on, one at a time. One at a time. Mr. Ewen, you have the floor.

EWEN: The fact that we're talking about it is the very thing we see from both the VC, the private money side and the public sector that just these conversations -- the fact that George Bush has put it in play is itself part of the benefit. And sometimes it's not just supporting technology, it's rules of how you connect to the grid, it's rules to how electrons are traded. It's rules to how transportation fuels are blended. It's all the things that government can do to make the playing field level. If we believe oil is not subsidized today then we've really got another thing coming. So. RATIGAN: Mr. Burnett, address this for me. Forget outright subsidies, ethanol, the solar. I don't care. Do you agree that the barriers to the development of these technologies or the basic capital investment like we do with biology or computer technology ought be facilitated or encouraged by the government?

BURNETT: It depends what you mean. My concern is. RATIGAN: Well, here's what I mean, I mean. BURNETT: The government is. RATIGAN: . I mean -- here's what I'm

saying, what I mean: I mean the government refusing to offer permits for things that allow competitive energy sources to oil, whether it's natural gas or hydrogen or whatever it is. In other words, should the government be less restricted in permitting and developing other technologies even if they are not subsidizing things like ethanol?

BURNETT: No, I think they should be energy neutral. They reduce barriers to any and all technologies. We need to be drilling off the outer Continental Shelf. We need to be going into ANWAR. We need to open up -- you know reduce barriers to new pipelines and to new electrical grids. But what will supply the energy to those grids, what will produce the natural gas for those pipelines should be left to the marketplace. The government does have a role to reduce barriers, regulatory barriers. But it often doesn't take an energy neutral role. What it does is, it says, for instance. RATIGAN: All right. BURNETT: .if you want to produce energy from coal, and you build a new plant, you also have to figure in the cost of the wires to run to the grid now. That's added into the price of the coal plant. Wind power doesn't want to have to pay that. RATIGAN: All right. BURNETT: They want the grid operator. RATIGAN: All right. BURNETT: .to pay for the price of the new wires running to their wind power.

EWEN: Look, for us, what it boils down to is there's a lot of coal. There's a lot of oil left in the world. We're not saying that these things are going to displace immediately. It's a matter of can certain barriers be lowered to allow the competition to be more fierce and more vigorous and. RATIGAN: All right. EWEN: .let the business models rule. RATIGAN: We'll have you both back. A great conversation, Sterling Burnett, John Ewen, thank you both.