



Iberdrola Has the Wind at its Back

Carol Matlack – BusinessWeek

June 7, 2007

Wind-generated electricity is attracting interest worldwide as the quest for clean, renewable energy gains momentum. And no one's moving more aggressively into this booming sector than Spanish utility Iberdrola.

It may not be a household name outside Spain, but Iberdrola is already the world's top producer of wind power, building and operating wind-turbine farms from the U.S. Pacific Northwest to the islands of Greece. And it's busily rolling out more projects--lots more.

Aggressive Expansion

All told, Iberdrola has more than 38,000 megawatts of wind-generating capacity in the pipeline, including about 19,000 in the U.S. By comparison, total worldwide aeolian capacity today is about 74,000 megawatts, including a little over 11,000 in the U.S. "The U.S. is huge, flat, windy, and it needs a lot of power," says Michael McNamara, head of European clean-technology research for Jefferies International in London. "That's why Iberdrola is betting big there."

Iberdrola, based in Bilbao, Spain, has been building its wind-energy business through a series of acquisitions and alliances for the past five years. But it took a giant leap forward last year when it acquired Scottish Power for \$23 billion. As part of that deal, Iberdrola scooped up the British utility's extensive wind-energy portfolio, including Portland [Ore.]-based PPM Energy, the No. 2 U.S. wind-energy producer after FPL Energy, a subsidiary of Florida-based FPL Group (FPL).

Going Public

To raise money for development in the U.S. and elsewhere, Iberdrola announced last month that it will list 20 percent of its renewable-energy subsidiary, Ibernova, on the Spanish stock exchange later this year. Analysts think the unit could be valued at more than \$20 billion.

Citing regulatory restrictions in advance of the initial public offering, Iberdrola declines to comment in detail on its plans. But it's clear that the U.S. will figure prominently. PPM Energy already has extensive operations in the Pacific Northwest and California, and has wind farms under construction in Pennsylvania, Minnesota, and Colorado. Iberdrola also is expanding rapidly in France, Greece, and Eastern Europe, as well as in Spain, where wind power already accounts for more than 9 percent of electric generation.

True, wind energy accounts for a minuscule 1.5 percent of electricity worldwide. And while generation costs have come down to as little as 4 to 5 cents per kilowatt hour, that's still a bit more than most coal- and gas-generated power. Few wind-power projects would be economically viable without government incentives, such as tax credits in the U.S. and price supports in several European countries.

Government Incentives and Support

Still, the industry is clearly enjoying a tailwind. Besides offering incentives to wind-power producers, governments in Europe and the U.S. are pushing for development of new energy sources to reduce greenhouse gas emissions and reduce dependence on imported fuel from the Middle East and Russia.

Wind-power capacity worldwide grew a record 30 percent last year, according to BTM Consult, a Danish research outfit that tracks the industry. BTM predicts that investment over the next five

years will reach \$186 billion. German utility E.ON (EON) announced plans on May 31 to invest more than \$4 billion in renewable energy projects, mainly wind farms. And General Electric (GE) in February announced plans to invest \$270 million in wind power, including taking a stake of up to 22 percent in French wind-power producer Theolia.

Investors are enthusiastic. Iberdrola's share price has doubled over the past two years, and shares in EDF Energies Nouvelles, a renewable-energy unit of national utility Electricit de France, have jumped 30 percent since its partial listing on the Paris stock exchange last year. Stocks of wind turbine manufacturers, such as Vesta of Denmark, are soaring, too.

Of course, Iberdrola could still run into political trouble, as happened when local residents, anxious to keep unsightly wind turbines away from their shoreline, derailed a plan by another wind-farm developer who tried to install turbines off Cape Cod. But Jefferies' McNamara says that public opposition to wind farms in Europe has been minimal. And in the U.S. ideal spots for wind farms are in the Great Lakes and Plains states, where people are likely to be less concerned about turbines spoiling the scenery. For now, the wind is blowing Iberdrola's way.