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Oil Price Slide Seen Battering Alternative Energy Stocks

SAN FRANCISCO -(Dow Jones)- Investment in alternative energy companies has dropped off in the last month as investors worry sliding oil prices will dampen the urgency to find replacements for fossil fuels.

The ECO Wilderhill Clean Energy Index, which tracks the performance of alternative energy and "clean technology" stocks, closed at $165.37 Wednesday. That's down 17.5% from its recent high of $200.45, hit Aug. 15.

The drop in alternative energy stocks follows a slide in oil prices toward $ 100 a barrel that began this summer. Near-month crude oil futures on the New York Mercantile Exchange ended trading at $102.58 a barrel Wednesday, down 29% from their record $145.29 close on July 3.

"When oil was high, there was a realization that we have a limited supply of oil that forced prices higher and also forced people to look at alternative energy," said Cory Garcia, a research associate at Raymond James Financial Inc. (RJF) in Houston. "For the average investor, falling oil prices forces you to re-analyze whether you really need alternative energy. It at least pushes out the time horizon."

The connection between oil and alternative energy is largely psychological, particularly with regard to renewable power. That's because petroleum is no longer used to generate baseload electricity. But there's a strong indirect connection because many investors and policy makers see gasoline and diesel being replaced in the future by electricity and biofuels amid concerns about global warming.

In addition to the pressure from falling oil prices, alternative energy companies have been hit by fundamental factors. For example, ethanol companies have been under pressure from high corn prices. And even though the industry has recently built out its ethanol production capacity, investors have worried that the infrastructure to get the supply to market is insufficient.

Still, the drop in the ECO index underscores the sliding sentiment of investors. Among the companies tracked by the index: solar panel makers Sunpower Corp. (SPWR) and First Solar Inc. (FSLR); energy efficiency firms Comverge Inc. (COMV) and Itron Inc. (ITRI); fuel-cell makers FuelCell Energy (FCEL) and Ballard Power (BLDP); and ethanol producers Verasun Energy Corp. (VSE) and Pacific Ethanol (PEIX).

Shares of Verasun have lost nearly 40% since their Aug. 13 high of $8.16, while Pacific Ethanol stock was down 36% from its Aug. 8 peak of $2.38.

Solar power stocks haven't been spared either, though the falls have been less dramatic. Sunpower shares have lost a little less than 23% since hitting a peak of $97.55 on Aug. 29, while First Solar shares have lost 29% since reaching $ 282.82 on Aug. 22.

Not everyone views falling oil prices as the driver behind the drop in alternative energy stocks.

The recent downturn in solar power stocks has more to do with a broader energy and commodity selloff, as well as the vulnerability of solar companies to market volatility, than with oil prices, said Jesse Pichel, an analyst at Piper Jaffray Cos. (PJC) in New York.

"We don't see a long-term correlation to oil," Pichel said, adding that a run- up in energy costs in general, including natural gas, helped push up solar stocks, as well as climate change legislation in California and other U.S. states.

That said, Pichel doesn't see falling natural gas prices as determining the decisions of utilities to purchase solar power. A drive for more renewable, low- carbon energy and an expectation that technology advancements will continue to down bring solar power prices will keep solar power companies strong, he said.

"It's really not a question of whether solar will be competitive" with fossil- fueled power, Pichel said. "It's when."

Aside from such fundamentals, renewable energy stocks have "oil price sensitivity," said Shai Hill and Angie Storozynski, analysts at Macquarie Equities Research.

Government mandates and incentives, which drive the growth in revenue for renewable energy companies, are fueled not just by concerns about climate change, but also by fear over "economic dependence on expensive oil and gas," Hill and Storozynski wrote in a note to clients. "As the oil price weakens, so too does this driver."

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