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Green tech touted as red-hot option for the region

Sacramento could be in line to be leading pro-environment burg.

By Clint Swett - Bee Staff Writer

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In the nearly three decades since Hewlett-Packard Co. and Intel Corp. set up shop in the Sacramento area, the region has yet to amass the technology heft that many envisioned.

But rather than aspiring to become Silicon Valley East, the region is now vying for a different title: Green Acres.

Given the push for so-called green technology -- environmentally friendly and energy efficient -- the area has the necessary ingredients to become a national leader, experts say.

"I think green tech in general represents a huge growth opportunity," said Tony Perkins, founder of Red Herring magazine, who's hosting a green-tech symposium in Davis in September.

"I am very bullish on the Sacramento region as a budding (green-tech) innovation center," he said, "and firmly believe this opportunity bodes very well for long-term economic growth and job creation."

The green-tech industry is exceedingly broad, encompassing such diverse industries as power generation, automobiles, building materials and agriculture.

And investors are backing their optimism for its future with plenty of cash, both here and around the world.

In 2006, venture capital funds invested more than \$270 million into Sacramento and Bay Area clean-energy companies, more than double the \$123 million a year earlier, according to Dow Jones VentureOne, which tracks VC investments. And the state's two major pension funds, CalPERS and CalSTRS, have earmarked nearly \$1 billion combined for green investments.

More than 60 local companies are already in place, with technologies running the gamut from ethanol production to solar panels to hydrogen fuel cells.

But Sacramento isn't alone in maneuvering to become a clean-energy hub. San Jose, Berkeley, Pasadena, Boston and Austin, Texas, are among the contenders for the crown, according to Sustain Lane, a San Francisco green-energy research firm.

No single region, however, has muscled into the lead, said Warren Karlenzig, Sustain Lane's chief strategy officer. "I think Sacramento has as good a chance as anyone right now," Karlenzig said.

The stage is certainly set for a clean-tech surge. Stratospheric oil prices, heightened awareness of global warming (including a push by California's governor against greenhouse gases), and a boost in investment activity all point toward clean energy being the next high-tech opportunity.

Developing a clean-tech center here would yield long-term benefits, said Oleg Kaganovich, chief executive of the Sacramento Area Regional Technology Alliance (SARTA). Once the region's reputation was established, both investments and companies would flow to the area, he said.

The Sacramento region boasts a number of advantages, experts say. The area has an environmentally aware population, proximity to the state Capitol where environmental policy and regulations are forged, and access to two universities with strong engineering, science and agriculture programs.

And the University of California, Davis, recognized as a top research institution in the green-tech sector, is committed to commercializing those research efforts.

Dennis Schuetzle, a green-energy consultant and former Ford Motor Co. research executive, runs the Renewable Energy Research Institute International in Roseville.

Schuetzle, whose McClellan Park-based lab tests equipment for the renewable energy industry, said the governmental cooperation that he's seen here bodes well for the region's efforts to become a green-tech leader.

"I've managed projects all over the world and the only time I've seen them work is when there was this kind of cooperation," he said.

The global buzz over green technology is already beginning to pay dividends for some area businesses.

Executives at Clean Energy Systems in Rancho Cordova, for instance, say they've seen increased interest in their technology to burn fuel for electricity and inject the resulting carbon dioxide -- which is blamed for global warming -- into the ground.

"We've really seen a surge in the past year within the energy community," said Keith Pronske, chief executive of the firm founded in 1993 by a group of Aerojet retirees.

That's translated into investments by power giant Sempra Energy and two Canadian energy firms to finance new CES plants.

Of course, similar high hopes were rampant more than two decades ago. When HP and Intel appeared on the scene, the high-tech icons were expected to pollinate the area with talented engineers and technologists, who would eventually start their own companies, putting the region on the road to becoming a smaller version of Silicon Valley 100 miles to the west.

For a variety of reasons -- including lack of venture capital and a dearth of seasoned managers -- that vision never happened, said Gilles Attia, a Sacramento lawyer specializing in technology startups.

Now, green technology appears to be offering the promise of bringing jobs and investments to the region.

Folsom-based Velocity Venture Capital, for example, is eyeing a number of clean-tech investments, and already has put money into one -- Folsom startup Marquiss Wind Power.

And Scott Lenet, who runs the West Sacramento branch of VC firm DFJ Frontier, said his company is considering investing in several local green startups spawned by UC Davis research.

International companies see potential in the area, too.

Netherlands-based solar power company Ecostream International recently established its first U.S. office in West Sacramento. German solar company SunTechnics Energy Systems Inc. opened its U.S. headquarters in Sacramento in 2005. And Danish company Novozymes A/S, which makes enzymes for converting grass into ethanol, has research headquarters in Davis.

For all the enthusiasm for establishing a regional green tech center here, it hasn't been easy for some veteran companies.

Jadoo Power Systems, a Folsom-based pioneer in portable hydrogen fuel cells, was forced to seek funding in 2003 from a major customer, Sinclair Broadcasting, because it couldn't interest Sacramento or Silicon Valley investors.

"There were not a lot of risk takers," recalled Lee Arikara, Jadoo's vice president of business development.

By 2005, Jadoo had attracted investments from two major Menlo Park venture capital firms, but none in Sacramento.

Arikara fears that clean technology investment will be spent primarily on Bay Area companies, leaving Sacramento-area firms fighting over scraps.

"What we have (in the region) is a good skill base. What we lack is a good investor base," he said.

But venture capitalists say that is changing. "I look at deals up here all the time," said Lenet of DFJ Frontier, whose affiliated fund, DFJ Element, has earmarked more than \$240 million for clean-energy investments.

But Lenet cautions against too much exuberance either from investors or green-tech boosters, saying the region needs to nurture a broad cross section of technology.

"These (green) products are capital-intensive and take a long time to get to market," Lenet said. "There will be a lot of people who make money, but there will be a bunch of investors who get killed."

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