



1 Simple Reason I'll Never Invest a Dime in Canada's Power Generators

Description

Growing up, about once a year my dad would open up his power bill and get unreasonably upset about how much it was. I assume he still does it today, I'm just not around to hear the aftermath.

It was during those moments that I learned one of my first investing lessons — generally, companies that provide customers with things they need (or perceive they need) are pretty good investments. No matter how many times my dad threatened to “sit in the dark,” he still faithfully paid. What were his options, especially during a cold Alberta winter?

Over the years, my thesis has generally held up pretty well. Companies like **Fortis Inc.** ([TSX: FTS](#)) and **Canadian Utilities Limited** ([TSX: CU](#)) have been the epitome of steady growth, each raising their dividend for more than 40 consecutive years. Even **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)) has been a steady performer for most of its history, excluding the last few years of weakness.

These stocks have mostly performed well for investors over the last 40 years, and all indications point to the sector continuing its steady, if unspectacular, ways. Energy usage is expected to go up slowly over time as our population grows. Coal power plants will likely be phased out over the coming decades, which means that power is going to have to come from somewhere.

And it will, but perhaps not from the source you're thinking.

Any investment in power has to at least consider the giant, game-changing technology that's poised to take the industry by storm. Yes, I'm talking about solar energy.

Of course, the power generators are already way ahead of me. Each is slowly converting more and more of their output to renewable sources, lessening their reliance on fossil fuels. These investments are not only important to the environment, but also help to ensure traditional power producers stay relevant for the next 50 years.

While the move into renewables is smart, I'm just not sure it'll matter. The reason? It's already getting to the point where folks who install solar panels on the roof of their house are reaping some serious savings.

Moore's Law is the observation that computing power tends to double approximately every two years, thanks to advancement in technology. Solar power is experiencing a similar phenomenon.

Huge scale experiments are already going on in Europe, where capturing solar energy is far more popular than North America. The verdict? The newest generation of solar panels are so efficient that depending on the location, the purchase and installation pays for itself in a maximum of two or three years. And remember, these panels are designed to last for 30 years.

I don't know about you, but if I had the chance to get a 33% guaranteed return, I'd jump at it.

Even if the claims of two-year paybacks are baloney, there's little doubt that solar is going to become a huge problem for traditional power producers at some point in the future. I recently spent some time in Japan, and rooftop solar panels are everywhere. Since the 2012 earthquake and subsequent nuclear disaster, Japan has been motivated to get energy from different sources. What will be the tipping point to bring North America over to that mindset?

Even diversified companies like Fortis and Canadian Utilities will undoubtedly feel the pinch. If customers are generating more than enough electricity to meet their needs, suddenly heating with power becomes an option too. Even if customers keep their gas flowing, the bite out of the power business will undoubtedly hurt.

And this isn't even factoring in geothermal energy, which could be the next big disruption in energy. It seems to be working pretty well for Iceland, at least.

Ultimately, nobody has any idea when solar technology will start taking a big bite out of total power consumption. It could begin in the next couple years, or it could be a decade or more away. There's no need for investors to rush out and sell their power generating stocks. But ultimately, solar energy could end up being a huge drag on their earnings.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)
4. TSX:TA (TransAlta Corporation)

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Date

2025/07/05

Date Created

2014/09/30

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