



How Solar Power Could Be a Game Changer for TransAlta Corporation and Fortis Inc.

Description

It's obvious renewable energy is going to be a huge part of the way we get power in the future.

I saw a chart a few days ago from a major Canadian oil producer that estimated that 31% of our energy needs in 2040 would still come from oil, down marginally from today, which is 34%. Meanwhile, energy from renewable sources is expected to increase from 3% to just 4%. With respect to the smart people who made that chart, I disagree. There's little doubt that solar, wind, and geothermal energy are poised to become a much bigger deal than they are now. The technology is improving, but, more importantly, sentiment around renewable energy continues to change.

Not only do people care where their energy comes from, but they're willing to take the plunge to do something about it. Rooftop solar panels are more popular than ever. They're easy to install, and the technology has improved by leaps and bounds even compared to a few years ago. They're more readily available, too; I recently saw a wide selection of panels on display at **Costco**.

And depending on location, the number of tax incentives a homeowner would qualify for, and the cost of installation, it's possible to make a pretty hefty profit for installing your own solar-powered system. Payback in certain places in Europe is less than five years, thanks to aggressive tax incentives. In most places in North America, it's a little longer, but even a 10-year payback period is pretty attractive when installing panels that have a life of 30 years.

On the surface, this would seem to be pretty bearish for Canada's two largest publicly traded power generators, **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)) and **Fortis Inc.** ([TSX: FTS](#)). If customers are generating their own power, that's ultimately less power they'll buy from the grid.

But there's a small problem with that. We have the ability to generate solar power. We even have the ability to store it in batteries, which will let customers truly break away from the grid. It's just really expensive to install batteries that can store more than a small amount of energy. The cost of batteries to store the amount of energy needed to run a house is approximately 10 times the cost of the solar system in the first place.

For many customers, the solution for that problem will be simple. They will buy a system big enough that excess energy is produced during the day, which can be sold back to the grid. The profit made during the day can then be used to subsidize the cost of power purchased at night.

This creates a great opportunity for Canada's power generators, especially for TransAlta, since it's overly dependent on coal, a source of energy that's bound to decline over the next decade. The company can approach homeowners with a deal to buy up their excess solar energy. The customer takes the risk to install the system in the first place, giving the company a small power plant for no startup costs. It could even offer financing for rooftop systems, letting customers pay back the debt (plus interest, naturally), with the extra energy created.

If TransAlta gets into this business now, it'll be in a terrific position to profit in five to 10 years when solar systems start becoming really popular. It would get a bunch of small power plants with minimal maintenance, with almost zero capital investment, and that will allow it to slowly transition from its dependence on coal.

In the meantime, investors are still getting an interesting investment in TransAlta. The company trades at its lowest levels since the late 1990s. It pays a generous 6.6% dividend, which appears to be sustainable, at least in the short term. It is working to pay down debt and solidify its balance sheet. If it manages to use technology to transform the business, the company could end up being a terrific investment.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:FTS (Fortis Inc.)
3. TSX:TA (TransAlta Corporation)

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Author

nelsonpsmith

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