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Investors High on Water

Two companies snag first rounds for energy-efficient water purification.

by: Alexandra Berzon

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Two companies that promise to reduce the considerable energy costs associated with making dirty or salty water safe to drink received funding boosts Wednesday.

Energy can make up 50 percent of the cost of water-treatment projects, so more energy-efficient technologies could make purification and desalination endeavors both cheaper and more politically popular, said analysts and investors.

The new funding may also indicate that venture-capital interest in water technologies, once on the wane, could be picking up some steam.

Stony Brook, N.Y.-based Stonybrook Purification received \$4.1 million from Battery Ventures, Modern Water, T2VC and TianDi Growth Capital.

Stonybrook, spun off from research conducted by scientists at Stony Brook University, says it has developed technology to increase the amount of water that can flow through a membrane. That should make the process of reverse osmosis, used to remove salt from water, more energy-efficient.

Also on Wednesday, Albuquerque, N.M.-based Altea announced that it had received \$7.1 million from CCS Income Trust and existing investors.

Altea claims its system can reduce the energy involved in thermal distillation -- the energy-intensive process of heating dirty or salty water and then capturing freshwater as it rises as vapor out of the mixture. Altea has tested its prototype in small United States-based projects that turn heavy wastewater into clean drinking water on industrial cleanup sites, said Altea CEO Ned Godshall.

These two companies are among the many trying to take advantage of what investors say could be an oil-sized market opportunity -- someday.

After all, more than a billion people in the world already don't have access to safe drinking water, and water insecurity is expected to mushroom due to increased drought and diminishing groundwater.

Despite that, venture-capital investment in water technologies declined between 2005 and 2006 -- down from \$128 million to \$77 million -- according to Cleantech Venture Network, even as investment in other environmental technologies soared.

Investors have expressed concern about a lack of good entrepreneurs developing water technologies. They also have said the cost of projects may be too high for the developing nations that most need them, large water utilities can be very conservative customers and a return on their investments may be too far off.

But water investors and analysts say optimism in the space may be on the rise again.

"There's a pickup taking place, in terms of funding and entrepreneurial focus," said Dave Dreesen, who led Battery Ventures in the Stonybrook investment.

Bill Brennan, who oversees Aqua Terra Asset Management's two water funds, said he expects

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desalination plants to grow from 12,000 currently to 60,000 in the next 10 years -- much of that in the Middle East, China and coastal United States. That should cause investment to pick up mightily in the next two to three years, said Brennan.

"It'll happen when you get those initial orders of certain membranes, motors and valves," said Brennan. "The whole industry is starting to change from an efficiency and cost standpoint, and there's going to be big investment opportunities as growth becomes hypergrowth."

And that's going to build interest in technologies that can reduce energy use. "The reason why desalination hasn't been as widely adopted as it could be is that it is expensive and energy-intensive," said Frost & Sullivan analyst Renee Chu. "Any advancement in technologies that could address this issue and make the process more efficient, I think there would be some potential for that."

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