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▲ BP Solar CEO Reyad Fezzani at the company's headquarters in downtown San Francisco, California.

»Absolutely not getting out of business«

Interview with BP Solar CEO Reyad Fezzani about the multinational oil corporation's PV strategy

As CEO of BP Solar for the last year and a half, Reyad Fezzani has been leading the London, UK-based oil and gas giant's oldest and most established renewable energy business through a period of fundamental restructuring – including closing factories in the West, shifting production to joint ventures and contract manufacturers in the East, and relocating BP Solar headquarters to San Francisco. After falling behind its competitors over the past decade, the moves signal the start of a new beginning for BP Solar, Fezzani tells PHOTON International in this interview.

When you took the reins a year and a half ago, you were the fourth BP Solar CEO in just 3 years. Why the revolving door?

There isn't a plot around that, around changing the CEO every now and then. For various reasons people took this job for a period of time, some longer than others. Some got promoted or had a particular agenda to deliver in terms of change. But the key is we have had a very stable management structure and management team. I have made some changes, such as bringing in a new CFO who comes from the semiconductor industry. We are trying to find the right balance of continuity of leadership and fresh blood because frankly BP Solar had fallen behind. We wanted to completely revive our offer, our connection to the market and our asset base, and so now we have embarked on a very substantial transformation to bring BP Solar back to where it really should be – as one of the top companies in the sector.

How much trouble was BP Solar in when you took over?

In many ways the unit was doing fine in terms of sales and manufacturing. But our cost structure was really out of line with the industry, so we needed to take action to fix that. And we made a bunch of decisions that I think in hindsight people will see as the start of a new beginning. Just to run through a few of those, we shut down the Saturn line, the high-efficiency cell line that we had in Madrid, Spain. That was the first action we took. We then closed our factory in Australia. That was a tough decision. It was one of our great factories and performing very well. Unfortunately, the cost structure was too high and we couldn't make it compete. Then in the first quarter of 2009, we announced the closure of our two factories in Madrid and our module assembly line in Frederick, Maryland. And that pretty much completed our restructuring actions. Essentially, the high-margin environment we were in was pretty much hiding a lot of issues that were sitting underneath. Not just for us, but for the whole industry. And I think in the turmoil we have just seen played out, it became very obvious that people needed to restructure their assets and needed to shut down factories that were not competitive. We were very lucky that we were one of the first companies to do it.

At the time these actions were seen quite negatively as actions that would shrink BP Solar.

I remember very vividly when we announced Australia that many people, including some journalists, were asking, »What are you doing? The industry grew 87 percent last year and you're shutting down capacity? That must mean you want to get out of the business.« But the answer to that is: we are absolutely not getting out of the business. We are dealing with the issue of how to remain in the business and remain competitive. Some people said, »Well, you must be a much smaller company as a result of the restructuring.« But our capacity has actually increased between 2008 and 2009 net of those reductions because we are also growing our Indian and Chinese assets.

Is the strategy to completely shift production to your Indian joint venture Tata BP, Chinese joint venture BP Sun Oasis and to third-party manufacturing in China?

The way we describe it is that this is a mixed model. We are buying silicon and tolling through other companies' factories for wafers, and to some extent cells and modules. So there is a big supply chain focus, but we will never stop manufacturing because it is critical to really have control over how your design and how your product is actually being made. As you know, a lot of the risks around this product are associated with quality and workmanship of the manufacturing process. And if you don't have control over that you are opening yourself up to liabilities.

Speaking of liabilities, how much have the recalls of modules due to defective junction boxes cost BP since 2006, when the first recall started?

I think in terms of the cost, it is difficult to quantify exactly. But it did cost us a lot of money. We had a particular product that we made in 2003, 2004 and 2005, and that product had a junction box design associated with it when the recalls happened. We redesigned the junction box and took out all the defects, and as a consequence our new junction box design doesn't have any of those risks or weaknesses in it. Now a lot of our competitors have decided to still go with low-cost junction boxes. They will have to live with their own recall programs some day. We had ours, and I will tell you that BP Solar is a very different company to the company that had that problem. We understand our product and our junction boxes extremely well, and we are very careful about how we source it and how we get it manufactured. We can go back and write history in lots of different ways, but I don't think the issue was anywhere near as substantial as it was played out in the media. We ended up proving to our customers that we would stand behind our product. That is how the legacy has played out. On the back of it, we are seeing customers who had stopped buying BP, or slowed down, now increase their purchases dramatically. In Germany, some of our distributors had taken us right down to less than 10 percent of their purchases – in some cases nearly to zero – but we are seeing them come back in strength now. They are buying 20 to 30 percent of their modules and higher from BP again. We also had a very interesting experience with a power developer called RGE. We are supplying 46 MW of product to that developer for a solar farm in Germany. It is the largest single solar farm being built in the world today. When we talked to them about the quality of our product, they challenged us. They said,

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»You've had recalls. You've had junction box issues. Why should we trust that this product is good versus the alternatives?« We offered to guarantee a percentage of the energy output. It's an expression of our confidence in our product.

Hasn't the recent fire in Germany at the 5 MW rooftop plant in Bürstadt renewed customer concerns?

The customers who know us well and understand what we do haven't had an issue. In fact, all this was happening at the time we were negotiating with RGE. And RGE actually was very relaxed because we went straight to them and explained that these are not modules, and that this is not a BP installation. This is simply a supply deal of laminates which the developer of that site then took and made into a system – and the system was owned by them, designed by them and maintained by them. And frankly our involvement was simply to supply the product, the laminate. When we explained that, it helped a lot because people were concerned that this was a problem with a BP module or a BP design, or a BP-operated system. Our view is that there is absolutely no issue with our product. We've done extensive investigations including bringing in third parties to do the work and our conclusion is that the causes of the fire are primarily due to the design of that installation. There are some real challenging issues associated with it. And it does point us to the need for the industry to really change its perspective on installation. I would say we need the industry to now establish standards and quality criteria for how installations are done, and really stop the kind of mix and match approach. That is really the fundamental issue, and one that we are working on with the industry trade associations, because in the end it has safety consequences for our customers.

Overall, how is the market downturn affecting BP Solar this year?

Margins have been significantly reduced. There were times when most of our competition – and we were no different – was selling at break-even, if that. And that needs to correct because the industry can't carry on performing at these levels and making losses. So that has been the biggest issue. If you had come and talked to me 3 months ago, I'd have been a lot more negative about sales and demand this year. But 3 months is a long time in this industry. It looks like the worst is behind us.

Do you see 2009 as a growth year?

Not for the industry as a whole. I think the industry is down probably 10 to 15 percent in terms of installations. But there are winners and losers this year. Some are down 40 to 50 percent in terms of sales and some are up slightly.

What about for BP Solar?

We are going to be up quite a bit. Last year, we sold 170 MW. This year, we will sell something north of that. Interestingly, since the third quarter things have changed very dramatically for us. We are going to win share this year, quite substantial share in terms of total sales and installations. In terms of production, we are also net growing. I would say in the third quarter this year, and certainly in the months of July and August, we have seen an unbelievable turnaround in demand – so much so that we anticipate an all-time record sales quarter by some 30 percent. The fourth quarter still has to play out.

What are your revenue and profit forecasts this year on the systems side versus the production side?

You have the volume picture, but I am not sure I can go into detail. But we are going to be growing in terms of revenue because volume is growing much faster than the price declines. In terms of profitability, we are very keen to be a very profitable company because we think we need to get to a point where we are generating net cash flow to BP so we can reinvest that cash flow and leverage more growth. The industry has pretty much used the equity markets to allow itself to grow. There was some good access

to that for project financing when it was available. This year has been a good year for us in the sense of getting ourselves back to being competitive and to selling in large quantities. And next year, we look forward to a full year of benefits from our restructured cost base, since we were doing shutdowns as this year started and still had relatively higher costs. Our estimate next year is that we will be at about 25 percent lower unit cost of production versus the equivalent at the end of 2008. This is from shutting down Australia and Spain, and moving to more joint venture production at Tata BP, BP Sun Oasis and third-party manufacturing.

With oversupply right now, are you sitting on a lot of silicon?

This year, we do have more silicon than we can consume, so we will carry some into next year. We have a very strong advantaged position. I won't tell you what the pricing is because it is obviously confidential. But essentially, we are in a strong position in terms of pricing and volume.

Are you already buying new material?

No, we are comfortable with our position.

At some point BP Solar was thinking about full-integration and starting its own polysilicon production. Is that off the table now?

The question we have to ask ourselves today is, »Do we want to put our capital in the upstream, in the middle or in the downstream?« It all really boils down to where the constraints are. I think today's constraints are in capital to fund the installation side rather than in capital to build up manufacturing. So I would say there is probably a good enough supply source for polysilicon available through the existing players and their current expansion plans, and the incremental new players who are coming along. I am not so concerned about long-term silicon. The reason we were considering it was because it was becoming a constraint to our own growth. Access to silicon was the big variable. If you had it, you could grow as fast as you wanted. If you didn't, you couldn't. But right now, with a reasonable amount of liquidity in the silicon market and our prospect of new developments, there is probably no need for BP to deploy capital in that part of the chain.

But rather into the utility-scale business?

This is an emerging market. In North America, we were selected by Long Island Power Authority to negotiate our first utility-scale deal – for 37 MW. It's ground-mounted and includes an R&D component, so it's an interesting deal. There's various requests for proposals (RFPs) utilities are coming out with in various states. There is probably a gigawatt of projects up for grabs right now that is available for us to bid on. We are bidding on various chunks of that, but not on every single project. We can't bid on everything. Take a 200 to 300 MW project – the typical project we are seeing right now – it plays out over 18 months to 2 years. It is very substantial – maybe 50 MW in the first year, 75 MW in second year and the rest in the third year. This is coming at a scale that is huge compared to what we have been doing in the past. So we can't overextend ourselves. If we won everything we have bid for, it would be an interesting problem to have. But we have to be careful because we don't want to just win business for the sake of winning business. We certainly want to make money doing it. A lot of the bids we have seen are extraordinarily low because people are just desperate to win share, to say they have projects and that they are going to be a big player in the North American market. We don't feel that is the right approach. So we are being very selective and making sure we only take on what we can deliver.

What's your growth plans in terms of installed megawatts over the next 5 years?

I would say this year we will grow about 20 percent versus last year. I think next year we are looking at very substantial uplift – potentially twice that of this year – and the year after that another 1.5×. What we

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don't want is to ramp up production, ramp up the supply chain and be in the situation we were in the first half of this year: with nothing much to do. We have had false starts in the projects business before. But I think this time it is different. Our pipeline is in excess of 1.5 GW over the next few years. And those are real deals we have got in our sights, that we are bidding on or have signed contracts for.

Do you see the market returning to accelerated growth anytime soon?

Sure. I think 2010 will be up substantially. And I think 2011 will be an even stronger year. The reality is that the fundamentals have actually gotten stronger. They haven't deteriorated, even though we have had this period where we had supply and demand out of line.

Why did you relocate your headquarters to San Francisco?

So when we looked around the world to figure out where to have the headquarters of BP Solar we concluded that San Francisco would be the best location by far. California has something like 12 of the top 18 solar companies either with their headquarters or their US subsidiary here. A lot of the financial support for the industry is here, and a lot of technology innovation is happening in the Bay Area and Silicon Valley. So for the last year and a half, I have spent a huge amount of time speaking with start-ups, financers, investors and competitors based in the area. Also, there is the proximity to Asia, where we have a lot of supplier relationships. In addition, most of the Chinese solar companies come here so we have the opportunity to see their reporting. So we found it to be a very logical and powerful place to have our business headquarters.

Your competitor Royal Dutch Shell recently exited the solar industry. Lagging profitability in its PV business was cited as the issue. Is BP Solar profitable?

The answer to that is: it was profitable. This year is a tough year. I can't comment on Shell's decision. But if you don't keep up with your competitors, if you don't continue to take your product forward and continue to be competitive, you are going to struggle – whether you are owned by an energy company or by financial investors. I think if Shell had a really profitable and very successful solar business, they wouldn't have sold out. The reality is that in any corporation, you have to demonstrate profitability or at least a path to profitability. Being part of an energy company is no different than being owned by any investor.

Shell's solar investments – like BP's – extended back over 30 years. Is BP committed to solar for the next 30?

Of course. There is no reason why we wouldn't be. We believe in solar as a part of the total energy mix. We are going to invest in oil and natural gas. And we are also going to invest in renewables. The reality is that the customer wants it and the customer needs it. The market still needs a lot of conventional hydrocarbon energy, but I think there is a lot of promise in the renewables sector to get to a scale where we can make a material difference to the total energy mix. So you will see BP continue to pursue solar. Some of our competitors in the energy sector have gotten out. But I am not sure they are out forever. You never know when they are going to come back. In the end there is something about what has happened in solar and renewables in the last few years that has really turned the corner. It is no longer a game that is so far away from grid parity. It is now about scaling up so we can get to the point where we are a real business that doesn't need subsidies. That moment is not far away. BP takes the view that we should be present to capture that moment. Others are saying it is a bit too far away. But they will come back to it at some later point, because if you are going to be an energy company, you can't ignore solar. ●

Thank you for the interview.

Interview Garrett Hering