



Compact Power sees sharp battery price declines

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By Kevin Krolicki

DETROIT (Reuters) - Costs for batteries to power a coming wave of electric cars could plunge to a quarter of current levels over the next decade and the United States could face a near-term supply glut, the chief of LG Chem Ltd's <051910.KS> U.S. unit said.

Speaking at the Reuters Autos Summit in Detroit, Compact Power Chief Executive Prabhakar Patil said he was confident of booming demand for the lithium-ion battery packs for electric cars nearing launch from General Motors Co <GM.UL>, Nissan Motor Co <7201.T> and start-ups like Fisker Automotive.

But Patil also said recent incentives extended by the Obama administration and state governments could put more battery production in place over the next three years than the auto industry can absorb with its longer development cycles.

"We will have a lot of capacity in place over the next three years as a result of these incentives. I'm not sure we're going to have that much demand in place in that time frame," Patil said.

"The question is what do you do with the idle capacity," Patil said. "If you didn't see growth on the horizon you would really be worried but there is growth on the horizon so it's a matter of how quickly does that ramp up."

Compact Power has the contract to supply the 400-pound battery packs for the Chevrolet Volt, a plug-in hybrid GM is designing to run for 40 miles on battery power alone.

The battery pack is the most expensive part of the Volt and the reason that GM has indicated it will need to price the car at about \$40,000 when it goes on sale next year.

The battery pack alone is expected to cost between \$8,000 and \$10,000, a cost only partly offset by a U.S. tax credit of \$7,500 for consumers.

Patil said he expected that the auto industry would be buying up to \$25 billion in advanced batteries annually by about 2015. That is broadly in line with other industry forecasts. LG Chem rival Johnson Controls <JCI.N> recently said it expected a market of at least \$35 billion by 2020.

The boom in demand will be accompanied by plunging prices, Patil said. "It's not going to be just minor," he said. "I expect over the next five to 10 years for us to bring the cost down by a factor of anywhere from two to four."

Compact Power is investing \$300 million to \$400 million to build a battery cell manufacturing facility in Michigan and expects to disclose a site by December, Patil said.

The company has been considering three sites for the plant, but the city of Holland, Mich. is seen as the front-runner.

The project is supported by \$151 million in federal grants awarded by the Obama administration. The funding is part of \$2.4 billion allocated by the U.S. government this year to kick start development of battery technology for clean-energy cars.

The U.S. Department of Energy awarded grants in August totaling almost \$1 billion to five companies to make advanced electric car batteries.

Besides LG Chem, U.S. government funding went to Johnson Controls, A123 Systems <AONE.O>, a joint venture with Dow Chemical <DOW.N> and Enerdel, a unit of Ener1 <HEV.O>.

Compact Power is already working on a second-generation of auto batteries that could be tuned for anything from pure-electric to traditional hybrid vehicles. The company is talking to other automakers and testing those prototypes with GM for a second-generation Volt, Patil said.

Patil said the heavily promoted Volt program remained on track for a launch in November 2010.

"Things potentially could go wrong but there is nothing we see on our side or GM's side that make us doubt this will launch on time," Patil said.

(For summit blog: blogs.reuters.com/summits/)

(Reporting by Kevin Krolicki; editing by Carol Bishopric)

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