

KEYNOTE INTERVIEW

A new wave of investment



Away from traditional renewables, the energy transition presents a broad spectrum of opportunities for investors, explain ECP's Schuyler Coppedge, Matt Delaney and Emily Zovko

The energy transition may already be generating huge quantities of capital expenditure, but the work is far from over. If net-zero targets are to be met, investment will need to be increased over an extended period of time. It will also need to be spread across a broad spectrum of industries and subsectors.

The good news is that a widening range of opportunities for energy transition investment are opening up, driven by ramping public interest, timely innovation and record levels of dedicated investor capital. Schuyler Coppedge and Matt Delaney, each a partner at Energy Capital Partners, and Emily Zovko, managing director, investor relations, and head of investor services at the firm, consider these opportunities and how they can be incorporated into a long-term investment strategy.

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Q What is the current state of the investment market regarding the energy transition?

Schuyler Coppedge: If I was to characterise the current state of the market in one word, it would be 'abundant'. There is an incredible amount of capital earmarked for what feels like an endless supply of energy transition investment opportunities.

In 2022, for the first time, global energy transition spending eclipsed the \$1 trillion mark. We are witnessing record levels of activity. And with the combined forces of societal demand, investor interest and constructive energy policy, we expect momentum to

build across the next decade and beyond.

In addition, what makes this space interesting is the dynamic nature of the opportunity. If you talked about the energy transition even just five years ago, you were invariably talking about renewables – wind and solar, for the most part. Today, with the momentum we see from an economy-wide decarbonisation push, the opportunity set has become much broader.

So, as well as the traditional market for renewables, we are seeing opportunities in areas like building efficiency, carbon capture, alternative fuels, battery storage, electric transportation and more. This gives rise to an enormous amount of innovation and opportunity.

Emily Zovko: The other important thing the broader market is finally

recognising is that energy transition assets have been particularly resilient. Despite a rollercoaster of market conditions over the last couple of years, energy transition assets have held their value extremely well. This only verifies the key attributes of energy transition assets as infrastructure, which we believe provide both inflation and downside protection, giving investors the opportunity to continue finding attractive investments that generate attractive returns across market cycles.

Q Are there any specific subsectors within the energy transition that are gaining a lot of attention?

Matt Delaney: Carbon capture and storage (CCS) infrastructure is gaining a lot of attention because it provides a decarbonising solution for sectors of the economy that are difficult to electrify.

The US has particularly strong geology for sequestering CO₂ and, with the passing of the Inflation Reduction Act, the US also now has some of the most robust incentives in the world for carbon capture.

This combination of strong geology and attractive incentives will spur meaningful domestic investment in CCS over the coming decades.

Renewable fuels represent another important subsector – particularly renewable natural gas and renewable diesel. Renewable natural gas involves capturing and repurposing methane, one of the most efficient ways that society can reduce greenhouse gas emissions, because methane is up to 80x more potent a greenhouse gas than CO₂ when measured over a 20-year time period. In the US, we are witnessing a wave of new investments in capturing methane emissions from landfills and dairy farms.

SC: Battery storage has been a big focus area for us over several years. With costs decreasing and performance improving, it is one of the fastest-growing areas in the renewable landscape.



Edwards Sanborn Solar Storage Facility: the California project is the largest single solar and battery energy storage project of its kind

Case study: Edwards Sanborn Solar Storage

Epitomising the evolution of the US power market, the Edwards Sanborn Solar Storage Facility is located across 5,000 acres in Mojave, California.

Built across two phases to optimise construction and financing, the project comprises 756MW of solar power and 3.3GWh of battery storage.

The facility is being developed by ECP portfolio company Terra-Gen, with the project's second phase expected to be fully operational by Q3 2023. The largest single solar and battery energy storage project of its kind, it will play a crucial role in balancing California's power grid with substantial renewable sources to provide system stability and meet the state's decarbonisation goals.

Demonstrating the strong interest in sourcing electricity from renewable sources, the Edward Sanborn facility generates revenues via a diverse portfolio of offtake contracts with 14 different counterparties, including Edison International, Southern California Edison, Pacific Gas and Electric, and community choice aggregators Clean Power Alliance and East Bay Community Energy, as well as commercial customers Starbucks, Albertsons and Target.

“Despite a rollercoaster of market conditions, energy transition assets have held their value extremely well”

EMILY ZOVKO

Unlike wind and solar, batteries provide a predictable renewable resource without the intermittency challenges that are typical of traditional renewables. As a result, they can be paired with wind or solar to reshape the renewable production profile. Over time, as we transition away from gas-fired resources, batteries will fill the reliability void.

To shift substantially away from fossil fuels, the next decade will need to be the decade of the battery.

“To shift substantially away from fossil fuels, the next decade will need to be the decade of the battery”

SCHUYLER COPPEDGE

“Difficult-to-electrify sectors like aviation and heavy industry present enormous, long-term opportunities for investment”

MATT DELANEY

Q Are co-investments proving popular?

EZ: Yes. Co-investments are opportunities for our investors to invest directly in portfolio companies alongside our fund. Investors want increasing exposure to energy transition and renewable investments, and not just by being in funds – they want direct exposure so they can get first-hand deal experience and learn more about fund managers. It is an educational process.

For us on the deal side, deals relating to the energy transition can range in size significantly. At ECP, we are more of a mid-market fund, so co-investments allow us to remain in control of our investments while pursuing deals that may range in equity size from \$100 million (to start) to well over \$1 billion.

As a result, we can successfully maintain control and manage the overall fund exposure to investments. It also allows us to pursue de-risked differentiated development opportunities – deals that may require additional capital over time as we pursue new projects or add-on opportunities. Co-investors can be a critical part of ensuring we have sufficient capital to pursue these opportunities.

Q How are you approaching investing in the energy transition?

MD: Even though ECP is focused on the energy transition, we are not making any technology bets. We price and assess market and development risk but we are not in the venture capital space.

EZ: Our DNA has always been on the electricity side of the energy transition. We believe this provides a more distinct advantage in today’s current environment.

Many of the investments we have highlighted revolve around electrification and decarbonisation, which requires an in-depth understanding of power markets.

We have investments across asset

types, as well as extensive relationships and scale. All of this allows us to assess and execute opportunities. It also means we have developed extensive operating experience and built a team with decades of experience in hedging, contract structuring, asset optimisation and commercial risk management.

Q How do you regard the future of investment in the energy transition? Is this an area that promises long-term growth?

SC: Supply chain bottlenecks, labour shortages and other factors are serving as a break on renewable growth, but we believe this will be short term. In addition to the record capital deployment and supportive government policies, there is a broader societal push for decarbonisation.

This provides the backdrop against which money and policy follow. The world is fully committed to sustainable growth.

The amount of capital earmarked for the energy transition is astronomical. At the same time, government policy provides the catalyst to enhance returns. It is a combination of the public and private, but it remains an uphill battle.

If we are going to hit the targets tabled by the Biden administration and the Paris Accord, more will be required. The UN estimates that in order to reach 2050 net-zero targets, annual clean energy investment worldwide will need to more than triple by 2030 to around \$4 trillion.

MD: One of the most exciting things about investing in the space is not just its enormous capital needs, but also the wide range of opportunities that will be created. Many of the headlines have been around the decarbonisation of the grid, but difficult-to-electrify sectors like aviation and heavy industry present enormous, long-term opportunities for investment in carbon capture, renewable fuels and hydrogen. ■