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NEWS & ANALYSIS

Private equity and the race to a new energy future

Forecasters have put the price tag for the global transition to a low-carbon economy at $100trn over the next 30 years.

By Eamon Nolan,
Vinson & Elkins

Russia's attack on Ukraine, which sent the price of oil far above $100 a barrel during an especially volatile period, has focused the world's attention for now on the availability of conventional energy sources. But with an eye towards the future, private equity firms have been investing heavily in the transition to a low-carbon economy and renewable energy. The opportunity is enormous. Forecasters, including Credit Suisse, have put the price tag for the global undertaking at $100 trillion over the next 30 years, with most of the money coming from private sources.

Eamon Nolan, Vinson & Elkins

Private equity firms invested nearly $24 billion in US renewable energy companies in 2020, up four-fold from the previous year, according to the American Investment Council. The biggest names in the industry are participating. A Blackstone portfolio company, Transmission Developers, is working with several partners to deliver clean energy from Canada to New York City via a 339-mile underground electric transmission line. Similarly, a strategic partnership between GreenStruxure, a joint venture of Schneider Electric and Huck Capital, and ClearGen, a Blackstone portfolio company, is leading to the development of microgrid projects.

On the fund-raising side, the blue-chip firms are equally busy amassing dry powder for future projects. Brookfield Asset Management recently announced it was wrapping up a $15 billion fund dedicated to the energy transition, twice the original fund-raising target. Brookfield said it expects to raise still more money in the future to invest in everything from electric vehicles to emission reductions for producers of steel, cement and chemicals – an indication of the breadth of undertakings that fall under the energy transition umbrella.

TPG last year said it would raise $7 billion for the TPG Climate Fund and that it had already secured investments from a long list of institutional investors. The fund will concentrate on clean energy, greening industrials, agriculture and natural solutions.

Other big private equity players, including KKR, General Atlantic and Apollo, have signaled that they too will be investing in this same space over the long term. Interest in this field means there will be more funds raised that are dedicated exclusively to emission reductions and decarbonization.

Crowded field

And it is of note that private equity will not have this field to itself. Investors of all kinds – venture capital, pension funds, sovereign wealth funds and traditional energy firms – are pursuing similar deals. Today, it's not unlikely that when a strong portfolio of renewable assets comes up for auction, it will attract dozens of bidders, from insurance companies to infrastructure funds and more.

The upshot: asset prices are rising, which means expected returns will be under pressure. Interested bidders will have to move quickly when they spot an opportunity. They may also have to team up to take on big projects. Finally, they will have to sharpen their pencils to make sure they are able to compete for assets whilst still ensuring they can deliver returns to their investors.

One thing for certain is that progress is not predictable. The energy future is always hard to see.

The current crisis in the Ukraine is having an enormous impact on supply chains and commodities around the world and will for many years to come. China's commitment to covid zero is also continuing to hamper global supply chains, which are constraining energy generators. Government policy is another complicating variable. Many countries have laid out ambitious timetables for reducing emissions. Will they stick to them and come up with the funding they have promised? No one can say for sure.

But one thing is clear: the need for action is not going away. Speaking recently after the release of another gloomy report on climate change, UN Secretary General Antonio Guterres said, "As climate impacts worsen – and they will – scaling up investments will be essential for survival."

Private equity firms and their biggest investors have gotten the message and seen the opportunity. Over time their commitment and their capital will lead to technological breakthroughs, which, in turn, will open up more opportunities for investment. With luck, a virtuous circle will be created placing private and public markets at the front, center, and back of the energy transition.

Eamon Nolan is a Partner at the law firm Vinson & Elkins LLP and focuses on large infrastructure and energy projects.