

KEYNOTE INTERVIEW

Getting the energy transition up to speed



*Infra managers need to take an agile approach to seize the best opportunities in the renewables as well as broader energy transition market, says DIF Capital Partners' **Caine Bouwmeester***

The race to transition to a low carbon energy system has never felt more urgent. Governments, investors and corporates are rushing to express their commitment to net zero, amid dire evidence that time is running out to prevent climate catastrophe. The Russian invasion of Ukraine, meanwhile, has made the transition away from fossil fuels a critical geopolitical imperative, especially in Europe.

But with capital scrambling to invest in energy transition deals, finding projects that offer attractive returns and an acceptable risk profile for infrastructure investors is not always that straightforward.

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DIF Capital Partners has been active in the renewables market since 2007 and has made over 100 investments in the space. Over the years, the firm's scope has broadened into other energy transition segments, from EV charging to energy efficiency. Caine Bouwmeester, DIF managing director and head of renewable energy, says the firm relies on its sizeable team of in-house experts to proactively pursue deals in a competitive market and DIF's agile approach is vital to secure access

to the best opportunities across a wide range of markets and technologies.

Q The need to address climate change and strengthen energy security is clearly increasing demand for renewable energy generation. But is it possible to scale-up investments in renewables as quickly as governments are promising?

The biggest problem is that current policies and regulations simply don't allow for renewable generation capacity to be installed at the pace that policymakers and most other stakeholders

would like. The most obvious bottlenecks that we see are in permitting and grid connection processes – these can really slow down project development.

Governments are saying they want to massively increase renewable energy generation by 2030 or 2050. But there is a disconnect between the promises and reality, given that current policies result in projects taking many years to get through the development process. I do think that this can be improved over time – but if targets are to be met, we need local grids to be able to cope with the new reality and governments to streamline processes to allow for expedited renewable energy developments.

Although nimbyism is always going to be an issue, there is much wider public acceptance of new wind and solar farms in Europe than there was five or 10 years ago. Hopefully with all the public and political support for action on climate change and energy security, we will see reforms that lead to a faster and more transparent development process.

Q Will the ongoing disruption to global supply chains and increasing costs of raw materials hold back new renewables projects?

The global supply-chain disruptions are making it more difficult and more expensive to build renewable energy projects in most markets around the world. In some cases, this is having a very material impact. Since 2020, capex has generally increased by 10-20 percent, and in some cases even more, so that is having a downward impact on project economics in the projects going into construction, especially if offtake contracts have already been secured early during the process. It's also stretching longer lead times for key components delaying or extending the construction period.

On the flip side, rising commodity prices is one of the main drivers of the very high power prices which are now elevated to levels way above what

anyone could have expected. The price increase is most noticeable with spot and near-term forward power prices, but we are seeing long-term offtake and PPA prices increasing as well. On balance, this is having an overall positive impact on returns from renewable energy assets.

So in the near term we could see a slowdown in projects coming through construction as project owners navigate the current disruptions, or delays to construction, but on a medium or long-term basis we don't expect renewables activity to slow down. Actually, we expect the opposite.

Q With such a fast-moving energy sector, what is happening with demand and competition for renewable energy assets?

For several years now investors have been prioritising ESG and there is an enormous amount of capital chasing green investments. But there aren't

enough renewable energy projects to satisfy demand from all the capital at play.

Returns have been driven down due to that supply-demand imbalance. That is especially the case for operating and yielding renewable energy assets, though we have seen this trend continue to construction-stage assets as well, and to a lesser extent to projects in the development phase.

The challenge in the market at the moment is picking the spaces to invest. We are finding that the brownfield and yielding asset space is extremely competitive, partly because of the flood of capital into the sector. We believe the risk-return balance is more attractive in the greenfield and development stage.

Overall, we take a dynamic approach coupled with a global strategy. We prefer to adapt as market conditions change, rather than have a fixed, pre-defined strategy for one market or one technology.

In some cases, this can mean entering markets with long-term, fixed price government-backed PPAs. For example, in Poland we have aggregated a portfolio of pre-construction onshore wind farms over the past 18 months. It could also mean acquiring a fully merchant operating wind farm, like we have done recently in Oklahoma. These have different markets and revenue structures, but we think they are both offering an attractive risk-return balance and portfolio diversification.

Q What do asset managers need to do to stand out in such a competitive market?

DIF's approach is that we combine local presence across our extensive office network with a team of fully dedicated, in-house renewable energy and energy transition specialists. Our team has development, technical, offtake and PPA specialisations. We get involved in all aspects of project development, from origination and diligence through to driving value in the asset creation and asset management.

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Having a team with industry specialists means we can very quickly form an in-house view on an opportunity. There is a lot of activity in the market right now and some projects and development opportunities are much more attractive than others. What we can do with our in-house team is really cut to the chase with an opportunity, identify issues or risks, and form a view on whether we should take that forward or pass quickly.

We are spending a lot of time proactively pursuing development platforms, companies and IPPs where we think we can participate in the value created during the development phase.

For example, since 2019 DIF is the 100 percent owner of BluEarth, a Calgary-headquartered North American renewable energy owner and developer.

Also, DIF recently acquired a majority stake in ib vogt, a global solar developer that has over 40GW of solar projects in its pipeline in more than 40 countries around the world. We also have strong alignment with the founding shareholder and the management team to transform the company from a pure play developer into an asset owner and IPP, making it an infra investment.

Q Alongside investments in generating assets, where else are you seeing opportunities to invest in the energy transition?

The ‘energy transition’ is a very widely used and sometimes loosely used term. We were at *Infrastructure Investor’s* Global Summit in Berlin and ‘energy transition’ was by far the most-used phrase of the conference!

Having said that, DIF has a very, very large pipeline across the energy transition space. We are in the process of evaluating segments that we think could offer good investments and there are a range of over 20 investable sub-markets that we are currently exploring or pursuing.

Given the massive amount of renewable energy generation due to

come onto the system, there are going to be consequences for the grid and wider energy markets. That provides challenges – we believe that energy storage and in particular batteries, will be an obvious near-term solution. At DIF, we have already invested in a battery pipeline through our investment in ib vogt.

Also, with the current focus on energy security, it feels like energy efficiency is low-hanging fruit. Rather than having to go out and procure

more energy, there are lots of simple solutions to save or reduce current energy consumption. It is front of mind for almost everyone now.

Q Where has DIF been most active across the energy transition space?

The team has been very busy recently. For established renewable energy, I’ve already mentioned ib vogt. Another recent example is our acquisition of a 71 percent stake in Plugit, one of the largest EV charging infrastructure companies in Finland, delivering and operating charging infrastructure for businesses and public sector organisations, and a growing charging-as-a-service business model.

Following on from the energy efficiency theme, together with management we acquired a 100 percent stake in Bernhard, a market leading energy efficiency and solutions business in the US. Bernhard enters into long-term turnkey energy concession contracts to upgrade, retrofit and service large existing building energy facilities (typically with universities or hospitals as counterparties) in order to achieve substantial energy savings over a long-term period.

And most recently, we announced an energy transition investment in the Netherlands with the acquisition of Fudura. Fudura is the market-leading B2B provider of mid-voltage infrastructure, metering devices and related data in the country. Fudura is strongly positioned to become a one-stop-shop for energy infrastructure solutions, including EV charging stations, solar PV, battery storage and electrical heating solutions.

These are just a few of the deals we have done in the past four months, which give a flavour not only of how active we have been but also of the breadth of opportunities out there. It really is an exciting time to be investing in the sector and we are doing our part to be accelerating the energy transition. ■

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How we do it?

A proven, mid-market investment strategy underpinned by an independent and entrepreneurial mindset. We have global reach coupled with local network. A highly experienced team, comprising dedicated in-house renewables and energy industry professionals, who take an active approach to asset management with real engagement and impact.

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