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KEEPING ON TRACK

Investment in clean-energy infrastructure is going strong, but staying on the path to net zero could be tricky, finds Christopher Walker

As in the real estate sector, infrastructure is awash with top-down sustainability declarations. According to the latest edition of the EY Infrastructure barometer, 95% of participants consider ESG a "crucial" criterion when selecting and analysing assets, while two-thirds "actively seek companies with strong sustainability and governance standards".

Marco Daviddi, partner at EY, says: "Financially material ESG factors are more and more embedded into valuation, underwriting, capex planning and exit assumptions." However, he admits that investors often face "unpredictable policy shifts and inconsistent regulatory frameworks across jurisdictions, generating delay or derailing long-term projects, capital allocation and capex spending".

But there are more challenges that lie along the energy-transition path. Jags Walia, head of global listed infrastructure at Van Lanschot Kempen, sums up what sounds like mission impossible: "Firstly, there is risk of potential backtracking on decarbonisation goals.

"Secondly, fossil-fuel phase-outs are not always genuine. Companies may decarbonise by selling coal-intensive assets, such as coal plants, to someone else – particularly in private equity. This may help the seller meet its targets, but it does nothing to reduce real-world emissions and can leave the overall system just as carbon exposed.

"Lastly, increasing power demand, particularly from US data-centre growth, creates a risk that stated coal-plant closures are postponed, in turn complicating both valuation and transition planning."

Andreas Grassl, managing partner at German infrastructure investment manager RENAIO, agrees. "The energy transition is progressing, but its security is not guaranteed," he says. "Real asset investors today face accelerated transition timelines, rising physical climate risks and growing uncertainty around which technologies will remain viable over multiple decades. Global electricity demand is indeed projected to skyrocket further, with AI and data centres playing a crucial part."

This last point is indeed a real game-changer. The world needs more power, and it needs it fast – perhaps faster than renewables can deliver. Tyler Rosenlicht, portfolio manager for global listed infrastructure at Cohen & Steers, sums up the situation. "While the energy transition continues – meaning over time we continue to forecast growing market share for renewables as a percentage of global energy supply – that evolution takes time," he says. "In the meantime, the scramble to provide power for AI only amplifies our conviction that we need more of everything – meaning we need more of both traditional energy sources and alternative energy sources to meet the world's growing energy demand needs,

which over the last 18-plus months have received a jolt forward."

That jolt forward poses a timing challenge. "A sustainable AI ecosystem requires an attack-on-all-fronts approach," says Tania Tsoneva, head of infrastructure research at CBRE Investment Management. "Investor capital is flowing to develop all types of power generation – new gas plants, existing nuclear and later small nuclear reactors." But this will still not match the rush in demand for power "due to long development timelines and equipment shortages", she adds. "Renewables collocated with batteries are increasingly deployed as they cover a large part but not all of a data centre's power needs."

This timing challenge puts a particular strain on renewables use cases. Scott Stiegler, partner at Vinson & Elkins, notes: "Green-energy projects are traditionally large, complex and expensive, and many utilise proprietary components and technologies which take time and money to develop, source and replace if things go wrong. The time until an investor can start withdrawing benefit from a green-energy project is therefore usually lengthy, which can be off-putting, with investors preferring quicker returns."

Furthermore, renewables like wind and solar are critical, but their lifecycles are shorter, meaning they can become obsolete and need 'repowering', or replacing and upgrading. "Price volatility and repowering needs are increasingly at odds with institutional net-zero strategies," says Grassl. "Investors are realising that decarbonisation needs more than momentum – it needs assets that don't become obsolete halfway through. The greatest transition risk for investors [is] owning assets whose lifecycles end before the net-zero timeline begins. Technological change has been and will likely remain significant in both solar and wind power."

He adds: "Hydropower, by contrast, as an underlying technology has largely been perfected decades ago – there is no risk of a fundamental technological disruption. It is one of the few technologies already aligned with every stage of the energy transition — today, tomorrow and 50 years from now. The assets and their key mechanical components themselves have typical life spans of 50-100 years."

Stiegler agrees: "The speed at which technology now advances... means that traditional energy projects can be based on technology which quickly becomes outdated and superseded by another project. New technology is also inherently risky, as viability, sustainability and return are often unproven, and such technology, being in relative infancy, inevitably means relying on a single-source supply chain. This, in turn, brings risks and costs to the construction timeline should something go wrong." ●

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Good COP, bad COP

Brazil's COP30 climate summit was a disappointment for many. Dubbed the 'Implementation COP' in recognition of the need to urgently put promises from previous summits into action. But ambitions for establishing a 'roadmap' away from fossil fuels eventually fell away and such an initiative did not make it into the final text. One source tells IPE Real Assets off the record that "the fire in our bellies about climate change seems to be just a fizzle now". He is fearful that "talk of a 'just transition', too often a post-colonial agenda, has weakened the climate catastrophe argument".

Izzet Bensusan, CEO and founder of decarbonisation investment specialist Captona, thinks the energy transition is "directionally secure economically and technologically", but fears that it is "operationally and geopolitically fragile". The COP process has been one of the main ways governments have sought to marshal investors into fighting climate change, but it has had decidedly mixed results. Bensusan fears that "current commitments fall short of the tripling renewable capacity target by 2030, and investors treat COP as a macro sentiment but not as a dependable project-level catalyst".

Simon Hallett, head of climate strategy at Cambridge Associates, says: "It is often said that the real progress is made between COPs, not at COPs. COPs in general are least relevant for the more mature transition areas like renewable energy, where market forces are driving increasing [capital] flows anyway, as cost declines are starting to make the economics compelling across a range of technologies and geographies."