rethink energy Investments

Exploring Investment Risks of Fossil Fuel Infrastructure

Examining the risks of new pipeline proposals in New Jersey a battleground state for companies seeking to market gas from the Marcellus Shale in Pennsylvania.

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No More Special Favors for PennEast

PennEast has suffered further significant delays, due to FERC's lack of a quorum since February. Congress recently approved two of President Trump's nominees to FERC after six months of delay. PennEast is likely facing more delays, too. The company has been unable to complete surveys required by NJDEP and other agencies along much of the proposed route in New Jersey, due to stiff landowner opposition. It's not surprising that the company is pleading with FERC to approve its unneeded pipeline as soon as possible to avoid falling more behind schedule.

Read the Asbury Park Press editorial here.

An Interview With David Richardson

In a recent Bloomberg article, "Clean Energy is Trouncing Oil, Gas and Coal in Trump Era" (July 18, 2017), David Richardson, Executive Director and Global Head of Marketing and Client Service at Impax Asset Management (US) a leading investment firm primarily serving institutional clients spoke of the positive prospects for investing in renewable energy.

ReThink Energy Investments sat down with Mr. Richardson to hear his thoughts and opinions on a variety of issues concerning renewables and fossil fuels.

Impax focuses on companies that are set to benefit from the transition to a more sustainable global economy and currently has about $9.2 billion under management, up an astounding 32 percent as of June 30 this year as reported in the Bloomberg article. Mr. Richardson co-founded and served for 22 years as Managing Director of Business Development at Dwight Asset Management - now part of Goldman Sachs Asset Management. Mr. Richardson also headed Project Development at Mark Technologies Corporation and successfully led the financing and development of a number of large-scale wind energy projects in the U.S.

ReThink: *In some states, like California, gas-fired generation plants are under price pressure from renewables and are retiring early. Other energy firms are concerned about their older gas generation assets in the medium term. In PJM there's some 22,700 MWs of new CCGT coming online in the next four years. In your opinion, is there enough? And at what point will natural gas be viewed by energy firms as a bad investment?*

David Richardson: It's all about the price of electrons. And the price of electrons from renewables are cheaper. So, is there enough gas generation? Probably, because with the growth in renewables we're not going to need as much gas peaking as we used to.

Particularly with the advent of increased ability to store power in an economic way - which we see as being roughly five years out - renewables plus storage will supplant all other forms of energy in many markets, although not all. That will enable us to transition to much higher amounts of renewables and much lower amounts of fossil fuel generation. Hence, you could see some of these fossil fuel generation plants becoming stranded assets. I believe we'll transition probably over the next ten years. And, if you're an investor, if it's five years out you should be thinking about it *now*. So, while there may be more investment going on in natural gas at the moment, I believe that's a short horizon.

ReThink: *How do investors view energy firms that continue to promote fossil fuel projects in places like New Jersey, where state regulators are increasingly skeptical about their need?*

David Richardson: We recognize and agree with the skepticism. Most new generation capacity in Europe and the United States is renewable. Again, that's just because the cost of electrons is cheaper. Investors are more interested in renewables because the mechanisms have been set up for them to flourish. The future trends are towards renewables. There is a stranded asset risk that exists with conventional power. Long-term investors who are funding these capital-intensive energy projects, really must be thinking 10 to 20 years out. And, that is renewables, not conventional generation. From an investment perspective, we're drifting away from conventional sources of energy. Case in point - two new nuclear plants in South Carolina are being cancelled. That's remarkable.

ReThink: *When considering investments in midstream fossil fuel companies such as those that build natural gas pipelines, what should investors look for?*

David Richardson: They should look for increased competition from renewables plus storage. And also think about the cost curves that are continuing to decline for renewables. The market forces that drive power prices are going to favor lower power costs. Renewables are well-suited to meet that demand. You can have lower peak loads because energy efficiency and demand-leveling technology are increasingly available, thus the demand curve declines. Peak demand is often where you need the gas generation. And that's where power prices are the highest. That's what drives a lot of the investment. Those drivers are going to fade away probably faster than people are predicting. Thus, we believe it is going to get more and more challenging to finance fossil fuel generation in the future.

ReThink: *What will drive investments in renewables in the medium term?*

David Richardson: Assuming you're talking about medium term being the next five years, I believe there's enough tail wind favoring renewables to make renewables the dominant form of new capacity installation globally - certainly in the U.S. and particularly in the Northeast. We believe that it's not being driven by the cost of carbon but rather driven by the cost of electrons. And, with the declining cost of renewables year in and year out, renewables are the future of generation. I think you'll probably see a need for some policy around getting storage up to scale in the next five years. Perhaps the private sector will come up with something that doesn't require government policy to help initiate that scaling.

ReThink: *What are the fundamentals needed to drive the clean energy industry on its own steam?*

David Richardson: A level playing field. There isn't a level playing field with respect to all forms of energy. And a national energy policy - if we are to ever have such a thing. These would be helpful in terms of providing some future-focused stable framework for investors who are willing to commit capital to long-term, 30-year projects but not run the risk of having the rug pulled out from under them by a new administration that either believes or does not believe in climate change and the need for rethinking our energy mix. Standardization and a long-term energy policy would be quite helpful. If that happens at the state level, that's great. That will initiate a lot of investment within that state. And so, I think future-focused states who are interested in job growth may well be turning to the realization that there are far more jobs in renewables than there are in coal, gas or oil. State policy that's organized around promoting renewable energy is good for the economy, good for achieving climate goals and good for reducing costs of power for consumers.

About

ReThink Energy Investments is a publication of ReThink Energy NJ. The newsletter looks at the risks facing new pipeline proposals in New Jersey, a battleground state for companies seeking to bring to market natural gas from the Marcellus Shale.

ReThink Energy NJ empowers New Jersey citizens by informing them about the need for reduced use of fossil fuels and pipelines that threaten our state's preserved lands, water, environment, public health, and communities. Our goal is a swift transition to efficient, clean and renewable energy.

ReThink Energy NJ is supported by New Jersey Conservation Foundation, Stony Brook-Millstone Watershed Association and Pinelands Preservation Alliance.

For more information, visit rethinkenergynj.org and find ReThink Energy NJ on Facebook and Twitter @rethinkenergynj.

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