
Copenhagen a flop? Not so, say energy investors



By Shellie Karabell

One look at the amount of money needed to fund the projected demand for energy, coupled with a glance at EU and other policy directives aimed at reducing the world’s carbon footprint, and it becomes clear a little political squabbling on the world stage isn’t going to deter investors from looking for big returns from a nascent industry with a bright future.

“According to the International Energy Agency, global energy demand is going to increase by 50 per cent over the next 20 years, while massive cuts in emissions must be achieved,” says Alex Murray (MBA '07J), Co-President of the INSEAD Energy Network. “That translates to some \$45 trillion that needs to be invested in the global energy system between now and 2050, and 90 per cent of that needs to come from the private sector.”

But where is that \$40-plus trillion private sector money going? And how much risk is involved, for what kind of return?

“Our target returns are typically around 30 per cent, and you don’t get those kinds of returns just building assets,” says Shaun Kingsbury, Managing

Director of Hudson Clean Energy Partners. “We will take development risk, we’ll take some minor technology risk - for example, if something is proven we’ll take it to scale; we generally invest when the technology risk has been retired -- but we will not take a revenue risk,” he says.

“We invest in developers -- people who develop assets -- or we invest in the supply chain; for example, people who manufacture wind turbine blades or solar panels. As we look at countries which are of interest to us, we consider in Europe (the UK, Germany and Spain), and in North America we’re very focused on the US -- all countries which have built out their capacity of wind and solar, and (which) continues to support them.”

So far, Kingsbury has not ventured a bet on China, but that could change. “The newest numbers for energy finance show North America was down 25 per cent in 2008, while Europe was down 15 per cent. China was up 25 per cent - investing about \$27 billion last year, making it not only the fastest-growing market, but now the biggest single investor. You can’t ignore that if you’re a global investor.”

Then there’s the risk of time and volatility inherent in some kinds of renewable energy. Klaas de Boer (MBA '93D), Managing Partner of The Entrepreneurs Fund -- a family-owned trust launched in 2000 to identify long-term investments such as sustainable energy -- has put money into a Canadian nuclear fusion project. “I think the nuclear energy industry is making a revival for the first time in a long time,” he says. “Finland, for example, is building a reactor and there are rumours in the UK about a revival of the industry.”

Nuclear fusion, however, has always been considered avant-garde, 30 years ahead of its time, too risky. “Fusion is a different type of nuclear energy; it’s a lot cleaner, but the challenge has always been to do it on a commercially-viable scale,” says de Boer. That takes some time and a lot of money. “We have four venture funds and large subsidies from the Canadian government. We believe in a five-year horizon we can demonstrate proof of concept; and then we’ll seek to license it to one of the large power generators.”

The large power generators themselves are facing public policy initiatives that foster sustainability and phase out coal. But they still have to figure out how to keep the lights on between the last chunk of coal and the first mass-

use wind farm (or solar panel or geothermal cell).

“The natural choice at this point is gas,” says Simon Bonini (MBA '90J), Director of Liquid Natural Gas at Centrica. Created out of the Thatcher government’s de-regulation of the UK gas industry -- it today has 16 million customers. Aside from supplying gas and the power hub to go with it for the UK, Centrica is also the country’s largest single insulator of homes. “And we’re the lowest carbon-impact utility in the UK,” he adds.

“The world has never had a problem in terms of abundance of gas,” Bonini adds. “Liquifying it and putting it onto ships and carting it halfway around the world -- that’s where the real production cost comes in. But the scale of this is so great on a per-unit basis, that it’s surprisingly cheap and actually competes in the US with the cost of US domestic gas.” But Centrica, too, invests in other forms of energy. “We are a direct investor in nuclear -- both in the existing fleet and the replacement, and still the timing on that is not entirely clear.”

Because energy supplies are irrefutably tied to public policy it is, to a large extent, governments that set the time frame. Enter financing from the European Investment Bank.

Thomas Barrett

“The policy objectives of the European Union are enormous,” says EIB Director Thomas Barrett (MBA '78J). “What we can do as a financial institution with very much a public policy focus is not only to commit funding ourselves (and) to work with partners to leverage the funding we provide, but also to bring in funding from the capital markets -- tap the breadth and width of the European Capital Markets to be allied successfully with what others do.”

That translated into 80 billion euros in total in 2009 -- 14 billion into energy, of which four billion went towards renewable energy. “We’re only at the beginning of all this,” adds Barrett. “There are a number of scenarios that people are working on that should drive about \$200 billion US dollars of investment annually.”

That will take a mix of debt and equity. The latter is provided by companies such as Platina Partners, an investment fund that has worked on a number of EIB-backed deals. “We provide the assets, we are the main sponsors, we structure the deal, we build the plants,” says Managing Director Thomas Rottner (MBA '90D). “And as part of that we go to the EIB to find financing for the debt to finance the entire capex programme.”

But if the investments are global -- both in terms of technology as well as location -- so are the concerns. “Technologies compete in a global arena,” says Klaas de Boer. “And more cooperation between various nations with various objectives and agendas, rather than everyone digging into their own positions, is what I had hoped we would be seeing about now.”

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<https://alumni.insead.edu/IAA/GBR/groups/energy/default.aspx>

For the global INSEAD Energy Network, please go to:
<https://alumni.insead.edu/IAA/inseadalumniclubs/energyclub/Pages/Home.aspx>

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