

KEYNOTE INTERVIEW

Exciting energy transition assets mean thinking small



Energy transition assets such as batteries, EV charging and green hydrogen are often only available in small packages, which requires managers able to build platforms from smaller assets, explains [Barbara Weber](#), founding partner of B Capital Partners

Q How does the energy transition fit into the trends shaping infrastructure?

We see three major trends shaping infrastructure investment today – climate change, technological advancement and urbanisation. All these trends are interconnected and all require sustainable infrastructure. For example, the need to tackle greenhouse gas emissions and move to zero-carbon societies requires technologically advanced solutions – such as battery storage, which can enable growing cities to regulate volatile power demand and supply, or green energy generation for the purposes of, for instance, charging electric vehicles.

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These mega-trends feed into more specific themes in the energy transition. A December 2020 report from the consultant Rystad Energy highlights three key areas: carbon capture and storage, green hydrogen and battery storage. Like the identified mega-trends, these themes are highly interconnected. Rystad Energy elaborates how batteries compete with hydrogen, and both compete with carbon capture. The reality is that there won't be one winner, as all these sectors will have an

important role to play in helping us get to net-zero. All sub-sectors are somehow connected by digital infrastructure, which is an essential part of the energy transition and the development of smart cities. At the end of the day, new infrastructure is decentralising and we have to connect the dots with data.

Energy networks, smart lighting, smart meters and autonomous vehicles on the road all need data connections to communicate where they are and what their status is. Even for our wind-farms, we receive status information every second, connected via data networks. When you build decentralised systems, data infrastructure is essential.

Q Why focus on the energy transition?

We are committed to invest exclusively in sustainable infrastructure in the energy transition space. As such, we focus on assets such as battery storage, waste to green hydrogen, district heating and EV charging while still considering hydro, wind and solar.

Our approach is to invest in smaller assets in these sub-sectors. This is where the most exciting advances are happening and where one can generate true alpha. They are not happening in the big established and institutionalised parts of the market; like the first wave of renewables, they are happening on the ground.

In this area of the market, you need a fund with the flexibility to write small tickets to be able to go small. That way you can get early access to those ground-breaking assets that will be important to the energy transition and that can be built into platforms.

Large fund managers and institutional investors are not able to go that small, both because of the time and effort needed to understand these new assets and because of the relatively small tickets.

For example, the biggest single battery in Germany at this point is still only 50MW, and a 50-60MW battery costs €40 million-€50 million at best – which represents, after appropriate leverage, a small equity investment for a large manager or institutional investor.

We have spent time to penetrate the market, to identify suitable sustainable assets and to invest into small-scale plants. Once we have built the platform and it works, large investors will be interested in buying into it.

Q What are the benefits of investing in smaller-cap assets?

In small- and mid-cap infrastructure, there is a good supply of new projects and at the same time relatively little demand, which means that the economics tend to be better than for large assets

Plugging into the battery opportunity

Q How do you apply your investment strategy to battery storage?

This is a typical sub-sector of the energy transition where you cannot buy large assets in Europe, as of yet. There are growing numbers of industrial players developing smaller-scale assets in countries such as Germany. We accumulate these assets, which are scalable, into a platform that will generate attractive long-term yields and attract large fund managers or institutional investors.

Q What's the attraction of battery storage in Germany in particular?

Within Europe, Germany is a large, stable and predictable market. It offers revenue streams and incentives set by the regulator that are not available in other markets, such as the UK. Nevertheless, it is relatively new to financial investors.

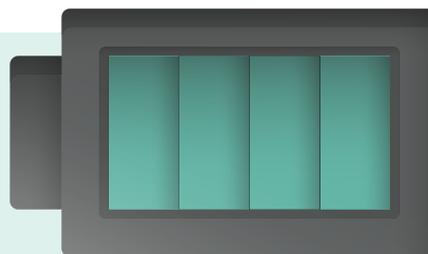
Because battery storage is a decentralised market with relatively small assets, many fund managers find it hard to enter. Some do not speak the language or, if they do speak the language, they are simply too far away from where the action is. Being based in Switzerland and with Germans on the team, we have access and build relationships with developers to ensure we get to secure these assets early.

Q What role do batteries play in the move to net-zero?

The sustainability aspect of batteries is very important and more significant than most people seem to know. German coal power plants are still generating over a quarter of total electricity in Germany and are also used for the primary reserve when a demand peak pops up. They run all year round with a massive negative sustainability impact.

Even after subtracting the energy the battery uses itself and the energy and resources needed to produce the battery, you can replace thermal power plants in their primary reserve functions and save a huge amount of carbon emissions within the battery's lifetime of 15-20 years. In addition, batteries can also store green energy at times of low demand, which otherwise would have been lost.

The bottom line is that the emissions from batteries are a drop in the ocean when compared with those from a thermal power plant.



where we see relatively little supply and a lot of demand. Large infrastructure investment managers are often competing with each other, as well as with institutional investors, for the same large-scale infrastructure, which drives up prices and reduces returns.

Equally important, you find a much broader universe of potential investments in small-cap infrastructure simply because certain assets are as of yet only available in small sizes. This gives us better potential for diversification across sub-sectors.

We don't mind getting our hands dirty on small stuff – sometimes you can build something very interesting out of it.

Q How do you source these assets?

We source almost exclusively from industrial players. To this end, we actively look for developers and industrial partners in sectors and geographies that are of interest.

In several target countries, we have mapped all infrastructure assets that exist to our knowledge. We have done that for example for Germany, Norway and Austria. This way we find operational assets we like and we find out who owns them.

We also develop networks with local and national utilities that enable us to follow the trail from the assets to those developers that are creating new infrastructure. In addition, we get plenty of unsolicited offers because we have a track record in these sectors. Most importantly though, it is about having a proactive approach of reaching out, rather than expecting sellers to find you.

The relatively limited competition in these segments increases the chances of securing an asset or even a pipeline of assets. Many of these smaller players do not have an investor network to properly run an auction process. This gives us an opportunity to build a relationship of trust while getting to know the asset. Also, developers and smaller

corporates tend to prefer long-term relationships with repeat deals since it reduces their transaction costs dramatically.

Q Does new small- and mid-cap infrastructure carry higher risks?

The short answer is no. We do not take the technology risk or development risk often associated with smaller assets. While we do get in contact with industrials when their assets still have development risk – or even technology risk due to unproven technology – at that stage, we follow them, keep a dialogue and guide them, so they understand the milestones they need to reach by the time we invest.

The skill is to see which assets lend themselves to being de-risked before or when we enter, so that we are sufficiently late but also sufficiently early. In sub-sectors where there is not much competition, you can have a proper conversation with the seller about risk and mitigating structures, including

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earnouts that de-risk the investment for us. In the hydrogen space, for example, there is such a hype suddenly that some investors are ready to take that development risk. That is not something we are prepared to do.

Certain types of risk cannot be structured, such as country risk (unless you take out political risk insurance). So, we focus on AA- and AAA-rated countries with regulators that are reasonably predictable.

The bottom line is that we generate very attractive risk-adjusted returns. Our infrastructure assets typically have a core/core-plus risk profile while generating returns that beat what investors that follow the large players might usually expect.

Q You mentioned the need to connect the dots between infrastructure themes. How are you doing that?

Energy transition is a broad theme covering a lot of sub-sectors, meaning you can create natural diversification across your portfolio. Beyond that, you can acquire assets that mutually support each other. If you have a wind farm, you can use it to produce power for another asset that also contributes to the energy transition – for example, to feed a green EV charging network, or to produce green hydrogen that can then be used for green hydrogen buses.

As an investor in various of these assets, you can structure, for example, PPAs between them, creating stability and a good business case for each. We also partner with industrials to profit from value chain-integrated solutions such as utilities' competence in trading electricity or building infrastructure.

This is an innovative approach, with few funds focusing on the energy transition sub-sectors in this way: diversified, de-risked and connected.

Investors we talk to are very interested because they see it is a relatively unbeaten path for now, which means there is the potential for outperformance and sustainability. ■