

KEYNOTE INTERVIEW

The human impact of the energy transition



*Instar president and chief executive officer **Gregory Smith** and InstarAGF partner **Jonathan Stone** say this promise of a greener future requires as much focus on the transition itself as the final net-zero-carbon outcome*

Q How has covid impacted the global shift towards a climate-conscious economy?

Gregory Smith: The trend towards sustainability has been going on for a number of decades, affecting the way we think not only about energy generation, but about community design, transportation and other aspects of daily life.

Recently, we've seen first-hand the dramatic impact of the pandemic on existing trends, such as the rapid acceleration in technological adoption. The thinking around climate change and sustainability has similarly accelerated, with a recent report by Preqin revealing that nearly 80 percent of alternative investment managers anticipate

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a substantial increase in current ESG practices by 2025.

A major factor driving this shift towards a climate-conscious economy is grassroots support, which in turn breeds support from governments. Over the past year the dialogue regarding sustainability in the public and private sectors has increased dramatically, and it is this rate of change that has been most remarkable. The progress we're seeing across North America reflects what we would have seen in around six years of sustainability initiatives, condensed into just six months.

Jonathan Stone: We find ourselves at a critical juncture for the energy transition. The nature of the pandemic has fundamentally changed our understanding of 'business as usual', resulting in greater demand for innovative solutions to meet our local and environmental needs.

Achieving the goals of digitisation, decentralisation and decarbonisation for the energy sector will involve a holistic overhaul of all our systems. It will require collaboration across governments, corporations and individuals to ensure equal access and opportunities in a transitioning industry.

Q Achieving a net-zero carbon future is a laudable

goal. What are the challenges to reaching this milestone?

JS: There is an interesting challenge around the public perception, and often misconception, of fossil fuels. While it may seem counterintuitive on the surface to bring fossil fuels into the conversation, these traditional energy sources have a critical role to play as we balance the shift to lower-carbon energy sources with meeting growing global demand for energy.

By 2050, the year targeted by the Intergovernmental Panel on Climate Change for countries to reach net-zero emissions, the US Energy Information Administration predicts that the nation's energy generation mix will only be 42 percent renewable, leaving the majority of the supply to be supported through traditional sources.

Reliably transitioning to a low-carbon economy while meeting essential energy needs means that the role of fossil fuels is evolving, as it should, but not going away entirely. Supporting the sector as it undergoes transformational change will help introduce new opportunities for these traditional businesses, customers, investors and communities.

GS: There is also a large misconception around what 'green' energy is and what will have the biggest environmental impact. We are very supportive of net-zero carbon and are working hard across our portfolio to ensure a net-zero carbon future for our companies, but it is important to dive into these deeper questions, looking at the impact across the whole lifecycle of an energy project.

Where are the raw materials and parts coming from? How are you getting those materials and parts from where they are produced to their ultimate destination? What are the waste implications when the project comes to the end of its useful life?

You need to consider the energy consumption footprint and carbon intensity of a project from construction to decommissioning for a real picture of what is happening.



Q How does community engagement work in practice in an energy transition context?

GS: All infrastructure projects come with a uniquely human impact. We are very proud of our work with First Nation groups during the design, construction and operation of the Okanagan Wind platform in British Columbia, for example. Not only were the communities highly supportive of the project, but we ensured 40 percent of construction contracts went to First Nations-backed businesses. That meant we were creating jobs for those communities throughout the construction and operational phase. Notably, we also created an impact benefit agreement, including a scholarship programme and work in schools to help educate children around renewable energy. We worked in collaboration with the First Nations leaders and that is a great example of how to engage with communities.

Q What are the most interesting investment opportunities emerging from the energy transition?

GS: One of the areas I find very interesting at the moment is bioenergy, including landfill waste-to-energy, as well as animal waste-to-energy. That is going to be critical to preserving the agricultural ecosystem, as the urgency around food and water security intensifies.

Going back to the idea of viewing energy lifecycles holistically, bioenergy has an important role to play. It ties in well with other technologies – such as run-of-river hydro, wind and solar – in that it provides reliable baseload. It is a key part of that energy supply mix that can be used to balance the overall grid.

JS: Leveraging agricultural and post-consumer waste to close the carbon cycle and produce more energy is a really exciting opportunity. But to fundamentally change energy systems in this way, you need to build the infrastructure required to ensure the system is stable.

A good example is what happened in Texas during its atypical cold snap in February. Natural gas plants, utility-scale wind turbines, coal and nuclear plants all began to fail either because they lacked the resources necessary to keep them online during low temperatures or were in low power mode to coincide with the typical low demand at that time of year.

There is a strong need and opportunity for investment in battery storage

and microgrids, digitised and decentralised solutions to provide the balance and efficiency required as energy demand continues to grow.

GS: District heating is another decentralised form of energy that is interesting and provides reliable solutions for communities. It balances the need for industrial and commercial heating and cooling during the day with the requirements of residential housing at night. We often think about energy in terms of fuelling cars, trains, boats and planes, but improving the carbon footprint of our cities is just as important as the movement of people and goods across the economy.

Q **When you look at potential investments in the energy transition, why is it important to incorporate all elements of ESG initiatives, rather than focusing purely on the environmental impact?**

GS: Each individual element actively influences the other. We often say that ESG should be renamed GSE: if you get the governance right, fully taking social and stakeholder impacts into account, it follows that you will be making the right choices around the environment.

The same can be said for social initiatives. Infrastructure provides communities with essential services, touching everyone's lives every day, from the moment you switch on the light, to getting in the car – or taking public transport – to get to work. So, the starting point for us when we look at ESG is ensuring we have a corporate social licence to operate. That community support allows us to build broader public support, making it easier to work with governments to ensure the right regulations and policies are in place to deliver sustainable infrastructure solutions.

Within energy transition projects specifically, the concept of a just transition is deeply embedded in the Paris

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Accord and foundational to our investment approach, which aims to enrich people's lives. As we shift from a carbon economy to a renewable economy, responsible investment and development in the energy transition means considering all areas of impact, including the very real social consequences for families and communities. We must balance the environmental risks and benefits with social and stakeholder

impacts, otherwise we are not doing our job as a society or as good corporate citizens.

Q **What does the future hold for the energy transition and the role of infrastructure managers within it?**

JS: I am excited about how we can contribute to societal change that is positive for everyone. We are proud to be a signatory to the United Nations-supported Principles for Responsible Investment, an organisation that helps establish global best practice for investors and asset managers. But equally, we are excited about the initiatives being taken at a portfolio company level.

Our management teams are keen to contribute to their communities and are finding meaning in that. Those initiatives may be small in themselves, but they have an important ripple effect.

It is a tough challenge that we are facing as a world, and it will require everyone to play their part. But I am excited about how small changes at the investment, asset management and community levels can have a big impact in connecting people, creating socio-economic opportunities and elevating industry best practices.

GS: Infrastructure is going to have a critical role to play as we move beyond the pandemic – not just in terms of boosting growth and creating jobs, but in contributing to the climate-conscious economy that is emerging and in engaging with the communities that infrastructure is there to serve. The asset class has certainly come a long way and is ready to step up to this challenge.

The focus is no longer on measuring and benchmarking our contributions to the energy transition, but on sustainable action to combat climate change and drive societal benefit.

The innovation and creativity we are seeing are what excites me. That is what will ultimately deliver lasting change. ■