

KEYNOTE INTERVIEW

Storage is 'key to the net-zero journey'



With many national grids ill prepared for the intermittency of renewables, sustainability depends on storage and network augmentation, says Sosteneo's Umberto Tamburrino

Infrastructure investors cannot ignore the net-zero imperative but backing new energy generation assets is not enough. Many grids are unable to cope with the volatility inherent to renewable sources of energy, so to deliver genuine impact investors must consider how new generation, energy storage and network infrastructure work together to create a greener world.

Both global and local factors should be considered when looking to support sustainable infrastructure, which emphasises the importance of finding the right asset manager, says Umberto Tamburrino, managing partner, CEO and CIO for Europe at Sosteneo

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Infrastructure Partners, an asset management company which is part of Generali Investments and specialises in greenfield infrastructure investments related to the energy transition.

Tamburrino, who has almost three decades of experience in the renewable energy sector, considers the importance of energy storage to sustainable infrastructure and the lessons he has learned, including the importance of battery storage and why investing in Australia is like a trip into the future.

Q How can you deliver genuine impact through infrastructure investments?

There are two important points. The first is that the definition of infrastructure investment appears to have shifted as structural trends shape the asset class. However, to deliver on the expectations of infrastructure – such as resilience through the cycle – consistent income is needed rather than just the private equity model of generating returns through a sale.

Recently, more infrastructure funds have slightly shifted their focus, investing less in projects and more in platforms, where they expect to make

Analysis

substantial capital gain. In doing so, they forget that a fundamental objective for infrastructure investors is to provide yield for LPs.

Our focus hasn't changed; we invest in infrastructure projects, which means new assets that accelerate the transition to a decarbonised future. This differentiates us from the funds that invest in companies.

The second critical attribute is the importance of investing in greenfield assets. These are crucial for genuine Article 8 and Article 9 investors because they provide additionality to the system. Existing assets – the typical brownfield investment – unfortunately do not add much from a sustainability point of view. Additionality needs to be a focus for a truly sustainable infrastructure fund.

It is also vital to recognise that impact extends beyond environmental sustainability. Social factors are important too. The “S” in ESG is often neglected. Investors need to work with local stakeholders to avoid this. For example, renewables should not destroy jobs, simply change them.

Q Why is storage so important for the transition to net zero?

Storage is hugely important because in many countries the grid is in a weak condition and unable to cope with the intermittent energy generation that you see with renewables. That means you need ‘enablers’, which come in two forms: storage and grid upgrades. The need for the latter is obvious – the better the grid, the more interconnections and capacity you have, which is ideal for more distributed energy generation.

On the other side, storage transforms an intermittent asset into a dispatchable one. The combination of new generation and storage allows you to prepare for the moment when energy is consumed by the final user. It transforms a non-predictable asset into a predictable one.

Also, the fact that the grid is weak in



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many countries, means that stabilising the frequency and controlling the voltage is a difficult job. The more renewable capacity you inject into the market, the less stable the frequency of the grid system. This can lead to blackouts or overcapacity.

Therefore, the ideal technology to stabilise a power grid is storage. This can provide an immediate response to frequency oscillations, allowing grid operators to immediately stabilise voltages. As such, storage, and to a lesser extent network augmentation, is key to the net-zero journey.

Q How do regional sustainability drivers influence your allocation of capital?

Clearly, sustainability is a global trend. Building more renewables is first structural, but also global.

Q To what extent are regulations pushing investment towards green infrastructure assets?

Regulations are moving according to the trajectory of national governments. They provide the framework for regulators mandating sustainability. We are witnessing substantial progress here. For example, the European Commission and its Renewable Energy Directive. This has yet to be adopted by all member states but is indicative of the direction of travel.

Having a central regulator like the European Commission pushing net zero is good, of course, but we are seeing movements at the local level, too. In order to get to net zero by 2050, the amount of new renewables that needs to be built is huge, including new generation, new networks and new storage. But before you can build all the necessary infrastructure here, you need a push at the regulatory level.

Every country in the world needs more renewables and, fundamentally, building a wind farm in the UK is no different from doing so in Australia or South America. However, there are regional drivers for investors to be aware of, as well as windows of opportunity driven by purely regional factors. For instance, we have seen this recently in Europe where high energy prices are causing a great deal of damage to corporates.

In Australia, local drivers are very different; the coal power plant fleet is very old and needs to be restructured completely but nobody is willing to take this on from the banking world. This means state subsidies are required to keep plants open.

Even so, there is a rapid shift away from coal and a need to replace missing capacity. Local regulators estimate that by 2032 or 2033 the amount of energy produced from coal will plummet from

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85 percent to around 10 percent.

Working in places like Australia, with its relatively poor grid system, is a bit like a trip into the future. In Australia, they are anticipating what other countries will experience when more intermittent power arrives, which is that the network here has not been designed to cope.

In the past, in Australia, you had very large power plants near load centres. Today, the paradigm has shifted towards scattered, intermittent generation. The lesson other markets should learn here is that increasing energy generation is not enough; this needs to be built alongside the right infrastructure and storage. In this sense, the Australian model has a lot to tell the world.

Q How important is asset management for sustainable infrastructure?

Asset management is a key part of what we do for our investors. It is only through active management that you can monitor the performance of your asset, resolve issues, anticipate challenges and deliver your promised returns.

From an ESG standpoint, asset management can allow you to detect environmental issues. And from a sustainability standpoint, more generally, you can pre-empt local problems, such as those related to long-term job creation.

An active approach to asset management also allows you to remain fully versed in the latest trends. We have seen this in terms of ESG shaping revenue contracting and PPAs.

The beauty of our business at Sosteneo is the fact that we don't have to take into account the price of fuel. Since solar and wind resource is free and uncorrelated with markets, we can offer long-term fixed contracts for the clean energy our assets produce.

Entering a contract with us removes the volatility of energy prices, but the story doesn't end there. It comes with the added benefit of being clean energy. This is why we are seeing a surge in demand from corporate offtakers; our energy solution directly addresses sustainability objectives.

Q What do you see on the horizon for investment in sustainable infrastructure?

From a technology perspective, I am increasingly aware of a renewed desire to create greenfield assets. Both storage and grid improvements must act in parallel here.

I am also seeing greater awareness among corporates, consumers and our clients regarding the choices they are making and the impact they can have on the net-zero movement. Choosing products or services that depend on clean energy is a net good for everybody. It is a signifier of where the world should be going, and it is a message that should be taken on board at a political level and will only help accelerate the energy transition. ■

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