Investors point to gas in US energy transition strategies

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Mega infrastructure fund managers and multi-billion institutional investors espoused the attractiveness of gas assets as part of energy transition strategies at REFF Wall Street 2024.

“Energy transition is at the top of everything we do. I think we have some of the most aggressive ESG policies that I’ve seen out of any North American investor," said the head of a $100bn-plus North American pension plan.

"But it allows us to go into sectors that would have a higher carbon footprint...we could technically be doing investments in coal and gas if there is a very credible and short-term plan to take that out of the mix and convert it into renewables. So, it’s essentially a bit of a pass on the trajectory for the interim period of time.”

In recent months fund managers have been readily snapping up gas assets, such as Bernhard Capital Partners (BCP), which in August agreed to acquire New Mexico Gas Company (NMGC) from Emera in a deal worth $1.25 billion. NMGC is the largest natural gas utility in America, serving 545,000 customers and managing 12,000 miles of transmission and distribution pipelines.

Meanwhile, Macquarie Asset Management earlier this month (September) closed on the sale of the 940MW Lordstown Energy Center to Arclight Capital vehicle ArcLight Fund VI.

A director at one of North America’s largest public sector pensions said the investor is primarily looking to write ticket sizes of $250 million and above for renewables.

“That would be for renewables. If it was a utility – which is another part of our mandate – potentially a bigger check. But a significant amount of that utility goes to the gas portion. More gas is on the table, it’s an important part of the transition in a lot of places. We’re definitely not ruling it out, and [we] just recently made a large transaction in the UK."

Gas-fired project developers got a boost in August when the Public Utilities Commission of Texas (PUCT) selected 17 projects totalling $5.38 billion to advance to the next round of the review process for the Texas Energy Fund (TEF) grant program.

Launched in June (2024), the fund currently has $5 billion to fund 3% interest loans for dispatchable generation projects of more than 100MW. The PUCT revealed that more than $39 billion in 72 loan applications was requested in total.

The fund was developed in response to Winter Storm Uri in 2021 and as a reaction to federal incentives for renewables, such as the Inflation Reduction Act. The TEF was passed in 2023 to protect the ERCOT grid from extreme weather events and a rise in generation demand.

Rapidly increasing generation demand was also highlighted as a reason for gas as "necessary transition fuel."

“I personally spend a lot of time on our digitalisation thematic, and I think all of us have experienced how some of these investing thematics are converging as we see a need for power driven a lot by onshoring and AI," said the managing director of one of the largest infrastructure fund managers. "[We’re] thinking about that energy delivery ecosystem and how we can support the build-out with our various forms of capital.”

BlackRock, Global Infrastructure Partners (GIP), Microsoft, and MGX last week announced they are teaming up to invest in the space. Through the Global AI Infrastructure Investment Partnership (GAIIP), they will initially seek to unlock $30 billion of private equity capital, which, when combined with debt financing, will yield up to $100 billion in total investment.

"There is an unprecedented need for power. It is not unreasonable to expect a 3-5% [power capacity] growth for a period of time," said one REFF panellist, a New York-based renewables-focused investment banker.