

KEYNOTE INTERVIEW

Europe's energy transition story



Europe may lack interconnectivity, but it benefits from an undisputable strategic need to transition away from Russian gas, says Glennmont's Joost Bergsma

Joost Bergsma, founding partner and CEO of Glennmont Partners, sees a significant amount of capital required to continue the energy transition. With war in Ukraine likely to affect energy markets for years to come, technological breakthroughs such as green hydrogen can play a significant role in Europe making a clean break from Russian gas.

Q How has the energy transition evolved over recent years?

The leading renewable power generation technologies have become clear over the course of the past decade. Both onshore and offshore wind, as

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well as solar PV, have come down the cost curve to such an extent that they are now highly affordable. That is making it harder for other technologies such as marine renewables, geothermal and even biomass to catch up.

The other evolution is in the subsidies provided by governments to drive down the cost of power generation. To a great extent that job has now been done.

Wind and solar projects can be developed without any kind of market support and investors can command

the returns they are looking for purely from market power prices. Nonetheless, the scale of capital required to continue to drive the energy transition remains daunting. The pace of deployment must continue to accelerate.

Q What about now? Are the elevated power prices we are seeing today here to stay?

Consumers of electricity had grown used to stable if not declining power prices over a period of many years, but the war in Ukraine has brought an end to that and now everyone realises that low power prices cannot be taken for granted.

Corporates, for example, are

working hard to secure their energy supply and hedge it for the long term. They don't want to leave themselves open to that exposure and, frankly, that is good for our business.

In terms of whether power prices are going to remain high, I would say that there are structural changes required to move away from a reliance on Russian gas that cannot happen overnight. It will take five years or more to replace that supply with other types of energy and in that transition period, power prices will remain elevated. Looking even further ahead, however, and bar other unforeseen circumstances, there is no reason why we won't return to the pre-invasion trajectory.

Q How are you adapting to reflect changing market dynamics?

Due to price volatility, more parties are wanting to secure contracts for off-take. That enables us to deliver the long-term cashflows that our investors are looking for and we see the ability to secure that revenue line as a key value driver.

To that end, we have invested heavily in our PPA capability. We already had a strong base, having structured PPAs for many years, but we now have a sizeable team that proactively engages with corporates and that prioritises understanding what key clients need. We are also looking at innovative ways to structure PPAs, looking at risk sharing, for example.

Finally, we have invested in software that enables us to understand what our merchant risk is at any point in time, and what is contracted in our portfolio on a daily basis, so that we can use that information to take advantage of short-term market volatility. In this way, we are still able to deliver long-term predictable cashflow to our investors but in an incredibly proactive way, whilst also making sure we can take advantage of high power prices in this volatile environment.

Q How are you approaching regulatory uncertainty with proposals such as windfall profit taxes, revenue caps and EU power market reform on the table?

Although, we have shifted to more of a market-based environment, this is still a highly regulated business. We need grid connections. We need environmental permits. We have taxes to pay and so we are used to dealing with regulatory change.

We would, of course, welcome as much forewarning, clarity and unity as possible. That can be rather challenging when you have top-down messages coming out of the EU that then need to be filtered down into individual countries. But, as I say, that regulatory uncertainty is something we are used to.

On the plus side, I truly believe that fund managers, investors and politicians alike recognise just how urgent the energy transition in Europe really is. Everyone understands the importance of balancing the need to keep electricity affordable with the importance of ensuring we have enough capital being deployed to reach our energy transition goals and, of course, to keep the lights on. Regulators are clear, I am sure, that they should not regulate to the extent that capital is deterred from investing behind the transition.



Q What are the latest technology breakthroughs that you find interesting and what potential do you believe they have?

There are a number of interesting new technologies that all, to varying extents, are complementary to the three

primary renewable generation technologies that I mentioned – onshore wind, offshore wind and solar. Certainly, I do not believe it is feasible that any new technology will overtake those three.

Specifically, we see interesting opportunities around storage, which is very much an enabling technology,

allowing us to add further power generation from wind and solar onto the grid. Driving down the cost of batteries, of course, will be critical.

Floating offshore wind also represents an important development. There are only a finite number of potential fixed bottom offshore wind sites in Europe and Asia and so a lot of money is going into developing the key technology for building floating wind farms.

Finally, the ability to decarbonise hard to abate sectors including steel and heavy industry will be essential to a successful energy transition and that potentially means the development of green hydrogen. These are the three areas that we find most exciting right now and hopefully these are things that, as an industry, we can crack over the next couple of years.

Q Which renewable technologies are best suited to producing green hydrogen?

I would say offshore wind and solar PV. For green hydrogen to reach its potential, it will be necessary to drive down costs. Electricity is the highest cost component in the production of green hydrogen and the best way to get those costs down is through scale.

We are currently in the process of building a 900MW offshore wind park in Germany, for example. That is the sort of scale required to power up an affordable green hydrogen facility. Equally, there is the potential to build large scale solar power parks in Spain and Italy, capable of feeding attractive green hydrogen facilities.

Q Is green hydrogen the solution the market has been waiting for or are there still challenges to overcome?

There are certainly still challenges and there is a bit of a mismatch between the potential that green hydrogen represents and the amount of time spent discussing it. Most forecasts seem to

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suggest that green hydrogen could represent around 5-10 percent of the overall energy mix in 10 years, making it relatively limited, although still important.

The challenges that remain are fourfold. One involves reducing cost by producing a lot of affordable green electricity as I have already mentioned. The second is reducing the cost of electrolyzers and there is a lot of money being directed into that area.

The third involves the transport and

storage network. It is one thing to produce green hydrogen, but in order for it to have a meaningful impact on the transition you also need to be able to pump it around the country and store it close to where it is required. Existing gas pipelines are of limited use in this regard.

Finally, there are question marks around offtake. There are several potential areas of offtake including heavy industry and transportation. But green hydrogen is a long way from being cost effective for a steel company, for example, and so we will require policy to stimulate demand, whether through subsidies or feed-in tariffs, just like those that helped the wind and solar industries get to where they are today.

Q How do the opportunities and challenges in the US and Asian markets compare to Europe?

In some respects, there are similarities between Europe and Asia in that they are not homogenous markets. One of the biggest challenges in Europe is that interconnections are highly politically sensitive.

Ideally, we would have a big fleet of offshore wind in the north and solar in the south and then link everything up so that it can be taken to where it is needed. There is progress being made on interconnections, as well as grid connections, at a European level but certainly there are still issues.

The US, by contrast, is more homogenous from a policy perspective but there is less strategic need. Europe, and to a lesser extent Asia, doesn't have a domestic supply of affordable gas as the US does. Energy security is therefore an absolute priority.

We have no choice but to transition. I am not here to say that one region is better than another – above all we believe in diversification – but I would say that the challenge in Europe is one of poor interconnectivity. The opportunity is that the transition is simply something that we must get done. ■