

KEYNOTE INTERVIEW

Managers must be hands-on



*In order to make a difference, engagement trumps exclusion, says Igneo's **Marcus Ayre***

Igneo Infrastructure Partners looks to hold infrastructure assets for the long term and create enterprises that are viable over decades. Marcus Ayre, one of the founding partners and now head of Europe, says that this long-term approach has two major consequences.

First, it has led Igneo to embrace the energy transition as an inevitable long-term theme across all its infrastructure investments. Second, it has led the firm to be a proactive investor, dedicated to engaging with the businesses it owns.

Embracing engagement over exclusion means taking responsibility for the companies it invests in, ensuring they play a leading role in transitioning to a low-carbon economy and seeing

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infrastructure as playing a critical role fundamental to the success of the energy transition.

Q How do you approach engagement?

A very fluid structure is important to us. Rather than having just one person making decisions, we very much take a team approach using the agile working model.

We have an asset management team for each investment. That team sits on the board and engages directly with the

underlying business to specify the energy transition goals.

We ensure coordination across the team by having an overall strategy that is established by the partners and the investment committee. We reinforce this by having a pan-European ESG function, that is led by Sophie Durham, which ensures that we have a consistent approach across Europe.

Q What is your energy transition strategy?

We set a net-zero target to be reached by all of the companies in which we invest by 2050, though we encourage them to have targets that are for an earlier date. But it is all too easy to have targets and then do nothing, so we have

a programme we call Climate Action 123. This has three steps: develop a net-zero road map; make a proper assessment of the climate change impact; and improve climate change governance overall.

It is our ambition that by the end of 2023 all our companies will have Climate Action 123 targets in place, and that we will be able to report back to our investors on the progress we are making. We put in place KPIs and remuneration systems for the senior management of companies tied to these. That forms part of the governance aspect.

The assessment of the climate change impact refers to physical climate change. We can use third-party providers to give us a statistical analysis of what is likely to happen by a certain date. However, when it comes to taking this to the next level of assessing the actual impact on the assets we own, and what we can do to mitigate that, then this is something we must undertake ourselves.

For example, through our portfolio business Evos, we are major owners of liquid bulk storage facilities across Europe. We need to have a plan for what to do if sea levels rise and how we engage with the port operators in which we operate.

Q What are your biggest challenges in encouraging companies to move along on energy transition?

Over the last decade, we found that those companies that took ESG seriously were also the companies that turned out to be our best performers. Management has typically been well aligned on energy transition, although if we were to find senior management opposed to undertaking this kind of strategy, as owners, we have the ability to make changes to management. This is one kind of exclusion that we do believe in.

The main challenges are about the market and the emerging nature of technology. In terms of the market,

Q Intermittency is a concern. Do you foresee a continuing role for gas as we move towards energy transition?

Yes, we see natural gas as a critical transition fuel. We won't get to net zero without using gas in the medium term, and it very much also has to be part of any energy security of supply strategy.

At the same time, it is important for gas businesses themselves to have transition strategies. In our investment in Nordion, we have seen the proportion of gas carried in their pipelines that is biogas rise from 8 percent in 2016 to 38 percent in the last year. This is significant but we want to go further.

We are also working with Nordion to create a Nordic hydrogen backbone network for Sweden and Finland, which will be some 1,000km long. Eventually we think this has the potential to save as much as 20 million tonnes of CO₂ emissions per year, which would represent something like 20 percent of the entire emissions for of Sweden and Finland. At the moment, gas absolutely makes sense, but we fully accept that we may be converting and/or developing new networks to operate hydrogen in the future.

“It is all too easy to have targets and then do nothing”

The crucial point we need to address is intermittency and how we ensure energy security during the energy transition. We also need to be very careful not to rely too much on the creation of new supply chains, in say hydrogen, which could just as easily be challenged as the existing gas supply chain is currently being challenged.

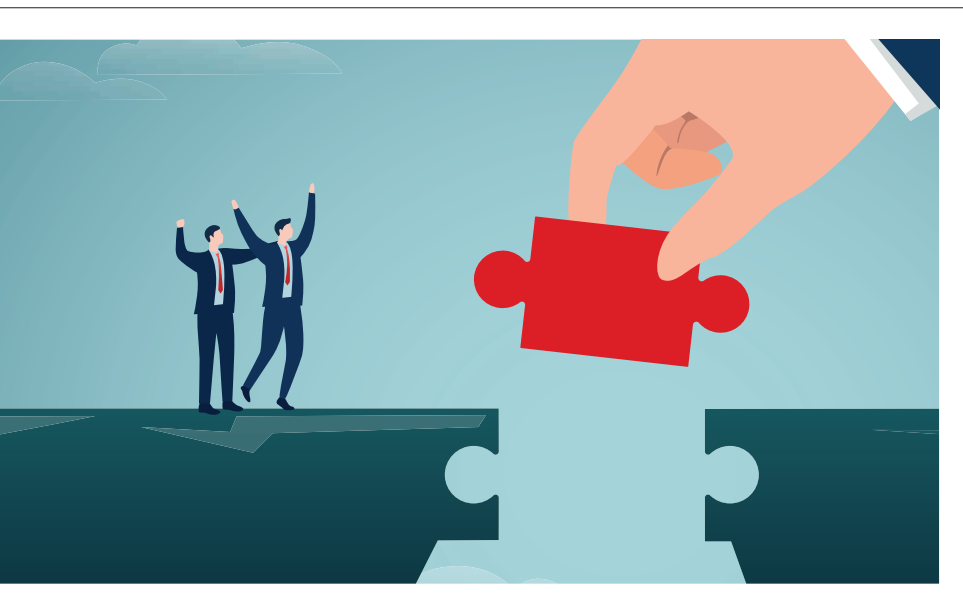
We also have to be alert to new technologies coming online, most especially carbon capture and energy storage, and to what the economic model looks like that works with them. Until technology reaches the point where costs have fallen, we will have to have government support to make sure that investors have some certainty around their investments.

I think there are a lot of parallels with what has happened with the support offered to wind and solar over the past 20 years, when governments have supported the industry and where now wind and solar is being developed without economic support.

Q What examples would you point to of companies where you have engaged and brought about change?

Utilitas, the Estonian district heating

the war in Ukraine has been a turning point in focusing governments' minds on energy security, and we now have a lot more engagement with governments across Europe. This is important because we need to make them realise a proper strategy is more than simply building enormous banks of solar panels and wind farms.



“We found that those companies that took ESG seriously were also the companies that turned out to be our best performers”

business, is a very good example. We own 85 percent of this business, with the other 15 percent owned by management.

Working closely with Utilitas management, we have set a net-zero goal of 2030 and developed a detailed road map to achieve it, including 170MW of new sea and wastewater heat pumps; developing solar and wind generation to power the new heat pumps; investing in new efficient CHP (combined heat and power) plants; replacing natural gas peak load production with biogas; and upgrading networks to ensure they are better insulated against loss of heat.

Additionally, we are investing in smart grids and smart substations to smooth out demand peaks. This can save as much as 20 percent of the energy generated, the equivalent of 150MW just in the city of Tallinn alone.

We will be investing €550 million over the next decade, but we believe this is well worth it as it will mean Utilitas is sustainable for the long term.

Another example would be Evos, where we have created a platform of eight liquid bulk storage terminals across Europe. Two of these are particularly important for marine fuels.

The major facilities we have in Malta, and Algeciras in the south of Spain, are effectively the petrol stations for the world’s shipping fleets, strategically located next to major shipping lanes for the Suez Canal and Straits of Gibraltar respectively. The shipping fleets currently run on marine fuel oil, but over the coming decades we expect this to be replaced by green fuels.

At the moment, it is difficult to ascertain exactly which that green fuel will be, but we are working with the major container shipping companies to establish which fuels the vessels they are commissioning will be running on. It is a very symbiotic relationship.

Fortunately, these terminals don’t operate with a single enormous tank but rather with hundreds of different tanks and so it is perfectly possible to convert them gradually, depending on which particular fuels are favoured by super tanker operators.

I think it highly likely that we will have multiple fuels in place at the same time until that question is answered. At present, it looks like it may be methanol that may be favoured, but it could end up being ammonia or another biofuel or a combination of different fuels.

Q It sounds like you have many interesting projects at the moment. How would you characterise the scale of the opportunities?

All these new energy transition technologies in carbon capture, energy storage, low-carbon fuels and renewables represent emerging asset classes that, with the right environment and economic models, should be absolutely suitable for the kind of long-term patient capital that is characteristic of infrastructure investors. This is a really exciting time, a time of significant change and opportunity for the infrastructure asset class. ■