

**The Investment Opportunity in Low Carbon Power
With David Scaysbrook of Quinbrook Infrastructure Partners**

Q1: What is Quinbrook's focus, and what is low-carbon energy investing?

David Scaysbrook, Quinbrook Infrastructure Partners:

We build projects and manage projects that deliver power. Increasingly these days, the emphasis is on the carbon intensity of that electricity as countries look to decarbonize their power systems. To us, lower carbon is primarily about gas as a transition fuel these days. Using gas as a fuel in power generation, in our particular approach to it, it's more at the medium scale—"behind the meter," we call it—or distributed power configurations, as well as renewable energies. So, when we talk about lower carbon infrastructure in the power context, we're really talking about gas as a transition fuel.

Q2: What is the opportunity set for low-carbon investing today?

Scaysbrook: You've got more choices now than you've ever had. We've always believed, as developers ourselves from prior experience, that the de-carbonization of power systems requires a significant new build out of cleaner, more efficient assets. So, we've always been involved in asset creation, building new projects.

That requires us to manage more risks, like late-stage development risk and construction risk, and you'd expect a higher return for that. The risk-adjusted return opportunity in what we now call "value-add infrastructure" is one area that investors can participate in. That means bringing these assets into being; particularly when we're seeing more emphasis now around ESG factors and sustainability and impact investing, a lot of institutional investors want to participate in that asset-creation cycle.

The other areas where you can play are in acquiring established assets. There's a lot more M&A activity going on and there are plenty of assets to acquire. These are assets that are already operating, if you like; therefore, they're somewhat de-risked, so an investor can decide that they want to play only in the de-risked asset space.

Q3: Given the recent volatility in energy pricing, what's the opportunity in distressed investing?

Scaysbrook: As the stock of assets in the clean energy sector has grown, there are more assets around, more assets that have been levered and more participants. [With] accomplished operators and not so accomplished operators, as you would expect, sometimes things go wrong. Other assets are over-levered or poorly operated and we're seeing with that increased stock of assets, particularly those that have been built in the last five years. We see restructuring opportunities, which is an opportunity for us to essentially take over from someone else's mistakes or misfortunes and rebuild those assets and bring them back to their operating potential.

Q4: Are there different opportunities in low carbon for U.S. and non-U.S. investors?

Scaysbrook: One of the particular features of the U.S. market, from an investing in clean energy perspective, is the federal tax incentives. Here in the U.S., you can monetize those tax benefits through upfront capital transactions. In other words, you can bargain for those tax incentives with a U.S. tax player. Then, that becomes part of the capital injection in the project and is an important feature of how you derive your risk-adjusted returns.

If you're a non-U.S. tax investor or a U.S. institution that's tax exempt, the monetization of those tax benefits is really critical. If you're a non-U.S. institutional investor, it's very important to be able to structure the projects in such a way to maximize the benefits that you can't otherwise earn because you're a non-U.S. tax player. Being able to structure those transactions and having the experience of doing that as an investment manager is very critical.

Q5: What other variables are increasingly impacting your investment decisions?

Scaysbrook: We're also not seeing the long-term, contracted arrangements that we used to see. A 20-year or 25-year purchase commitment—whether it's from a utility or from increasingly a corporate buyer—are certainly more rare. Therefore, the projects are by and large becoming more exposed to the vagaries of wholesale markets.

There's certainly a degree of commodity risk that's creeping into your overall analysis of a project. One would say that's a natural evolution of, if you like, renewables getting to grid parity. In other words, becoming just a part of the power mix—like a coal-fired power station or a gas-fired power station—and not being treated as a special, subsidized asset class anymore. Therefore, you have to look at what is driving pricing outcomes in those power markets and... short, medium and long term.