KEYNOTE INTERVIEW

# The energy transition's transatlantic story

*The US and Europe are both providing a rich pipeline of decarbonisation investment opportunities despite differing political backdrops, says I Squared Capital's Damian Darragh*

The US and Europe are a world apart when it comes to access to domestic hydrocarbons and the political will to use them – especially since President Donald Trump, a vocal sceptic of climate science, returned to serve a second term.

Nonetheless, with a spike in electricity demand in the US after decades of stagnant generation – driven by the rapid roll-out of digital infrastructure – and Europe's renewed emphasis on energy security, both markets are delivering an abundance of energy transition investment opportunities, explains Damian Darragh, fund partner at I Squared Capital.

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**Q How do you define the energy transition and how has the opportunity set evolved over time?**

The energy transition means something different to everyone and covers an enormous scope of activity. For example, in terms of risk profile, energy transition investment encompasses everything from a fully contracted solar plant at one end, right through to early-stage venture investments in new, unproven technologies.

In the middle of those two extremes, there are opportunities to invest in charging point operators, for instance. Underwriting those situations involves taking a view on utilisation rates, so we would see that as more of a private equity play.

At I Squared our focus is on core-plus infrastructure, which means we back essential assets with proven models and good cashflow visibility. The key differentiator is that there is also scope to further build out those assets and add value.

As well as thinking about the energy transition in terms of risk, I like to use the same analogy that you find in the

hydrocarbons world – upstream, midstream and downstream. Upstream is all about the production of renewable energy – solar, wind and hydro, as well as clean fuels, to a lesser extent. Midstream is about moving that energy around and storing it, while downstream is all about consumption.

Up until around five years ago, the focus was very much on the upstream. However, we've now reached a point where there's so much renewable power coming online that grid systems are constrained and so investing in the midstream – transmission, distribution, storage and grid stabilisation – has become critical.

**Q Why is midstream investment so important today and how can infrastructure investors access that opportunity?**

The reality is the grid wasn't built with the energy transition in mind. Rather than future proofing networks and then adding renewables, the process unfolded in reverse. While legacy systems could absorb renewables when volumes were low, the scale of today's renewable energy generation has meant constraints are becoming ever more obvious. That's why grid investment is such a big part of the investment story for infrastructure investors today.

The UK was the first grid system to be privatised. And that deregulation model, with a transmission network and a distribution network, has now been replicated around the world. Transmission networks, typically natural monopolies, have historically made it difficult for private market participation. However, the scale and urgency of investment needs are now driving a push to open them up.

Those efforts are beginning to reap rewards. In the UK, for example, the system operator NESO has been separated from National Grid, which owns the transmission cables. NESO is now working with private capital to bring stabilisation infrastructure in at the transmission network level.

After a series of Pathfinder procurements, there's a new tender being launched this summer called Stability 29, where NESO is looking to see what private markets can offer when it comes to building assets on the transmission network to help stabilise the grid. As these models prove effective, they're already being replicated elsewhere; for example, we're seeing similar tenders for grid stabilisation through Ireland.

Equally, there are opportunities for infrastructure investors at the distribution level. When distribution was originally privatised in the UK, control went to 14 regional monopolies. However, the regulator Ofgem has since allowed new entrants whenever new infrastructure is built.

That's now starting to happen at pace. For example, as bus operators, such as Arriva, in Europe transition to electric fleets, depots require electricity distribution infrastructure to be built.

**Q As the energy transition progresses, how are governments and investors managing the trilemma of decarbonisation, affordability and security?**

It's become increasingly evident with time that this is less a trilemma and more a hierarchy. Energy security is absolutely paramount. We simply cannot afford to get to a point where there's any interruption of supply.

Historically, there's been a degree of complacency about energy security in Europe. For a long time, we'd been getting cheap gas from Russia. More recently, however, a series of shocks like the blackout in Spain in 2025, due to a lack of grid investment, and again in the initial phases of the Ukraine war, have brought energy security back into sharp focus. It now sits at the top of the hierarchy, followed by affordability as high energy costs cause huge strains on the wider economy. Decarbonisation, while still critical, tends to come in third place in today's environment.

What has been helpful, however, is that the cost of delivering clean energy has come down significantly. When I first started investing in renewables 20 years ago, clean power was four times the price of grid power. Today, in many cases, clean energy is cost competitive with conventional alternatives.

Furthermore, clean energy can often offer greater energy security. Recent events in the Middle East have highlighted the risks of dependency on LNG coming out of the Gulf region. Domestic renewables offer greater surety of supply than reliance on distant import infrastructure.

The bus company cannot own part of the grid, creating a role for independent distribution network operators. As electrification gathers momentum, that same story is playing out in multiple different industries, driving significant capital deployment in distribution today.

**Q Is battery storage now a priority area for infrastructure investors as well?**

There's a huge amount happening in the battery space. Battery production really started to scale up with the advent of EVs, and as that happened, equipment prices started to come down dramatically. That means we can now use grid-connected battery systems to help manage the challenges of intermittent renewable production and the impact of geopolitical events on volatility in electricity markets.

However, this is a space that comes with some risks. These are relatively new business models and investors have to think carefully about how contracts are crafted. Nevertheless, there are certainly a large number of battery storage projects coming onto the grid system and it's a very interesting area.

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**Q How are you seeing the energy transition play out in different parts of the world and where are the most attractive opportunities?**

We're a global firm with investments around the world. However, from an energy transition perspective, we look at two major geographical blocks: Europe and North America. These two regions are in fundamentally different positions today.

The US has become the largest producer of oil and gas, a significant shift from a decade ago when it was an importer of hydrocarbons. On the other hand, Europe and in particular the UK have gone the other way, becoming largely an importing region.

The two markets have very different political narratives as well. Clearly, federal policy under Trump's administration is hugely pro conventional energy and sceptical on green energy. Europe, however, remains predominantly biased towards climate science, so there's a contrast in both underlying resource and policy.

What's interesting, though, is that we're actually seeing more innovation in the US than anywhere else. That's because there's demand growth for electricity for the first time in many years, driven by the electrification of transport and industry, as well as increasing digital infrastructure.

Hyperscalers in particular have some of the most stringent corporate sustainability agendas in the world and want to buy cleaner power. That demand is creating massive investment opportunities in the US, irrespective of the broader policy narrative.

We're also seeing new models emerge at scale; for example, one of our portfolio companies is developing a combined cycle gas turbine plant with carbon capture in Illinois. While this approach has been discussed in Europe in the past, it's so far failed to gain much traction, as it's costly. In the US, demand from hyperscalers is now driving this solution.

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The other dynamic at play is that years of negative demand for electricity means there's been limited investment in new generation capacity. With demand now accelerating, supply chains are constrained. We don't have the manufacturing capacity to deliver new equipment quickly and at scale – the lead time for new gas plant equipment is five years, whereas a renewables plant can be built in a year. The reality on the ground is therefore more dynamic than the headlines would suggest.

Meanwhile, the focus on energy security is only getting stronger in Europe, and the only way to achieve that security is with more renewables and more investment in the grid. Ultimately, while the drivers differ, we see huge opportunities on both sides of the Atlantic. ■