KEYNOTE INTERVIEW

From uncertainty springs opportunity



Sustainable investment themes are flourishing in the US despite the policy environment, says Ridgewood Infrastructure's DJ Boyd

The political environment in the US has undoubtedly changed the operating landscape, but demand drivers for sustainable infrastructure still exist, irrespective of administration. Enterprise customers continue to prioritise solar and batteries due to the competitive speed-to-power dynamics.

Energy efficiency is still the fastest, cheapest and most reliable way to address a persistent supply-demand imbalance, while infrastructure modernisation for municipalities, universities, schools and hospitals remains essential due to ageing assets and budget realities, explains DJ Boyd, managing director at Ridgewood Infrastructure.

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Q Where are the greatest opportunities to invest in sustainability-related infrastructure themes in the lower mid-market?

Over the last few years, the large-cap market has concentrated on utility-scale generation and investments in, or adjacent to, the large digital infrastructure build-out that is going on today. This has left the lower mid-market comparatively undercapitalised in the places where the economics are most durable, particularly infrastructure that sits close to the customer, delivers an essential customer need and solves an immediate operating problem.

We have already invested behind several themes that exhibit that opportunity well, including on-site and community-scale solar and storage assets that give commercial, industrial and public-sector customers lower-cost and more resilient power without waiting years in a utility interconnection queue.

We also believe that energy efficiency is one of the most overlooked asset classes in the energy transition. The cheapest and fastest megawatt is

still the one you never have to generate.

Finally, I would point to the opportunity to modernise community infrastructure with smart water, lighting, energy and communications systems that municipalities, universities, schools and hospitals (MUSH) depend on, much of which is well past its useful life today.

We have investments in our portfolio that reflect each of these themes: our structured equity investment in MN8 Energy, one of the largest independent renewable power platforms in the US; as well as Ecosave and Environmental Infrastructure Partners (EIP), which provide energy efficiency and sustainable infrastructure solutions.

How has the solar investment proposition changed as the sector has grown?

In the past, solar was largely a technology and policy bet. Investors were underwriting the decline of equipment costs, the bankability of new developers, and the access to cash grants and tax equity financing to improve project economics. Returns were driven by getting projects built and capturing incentives.

Today the technology risk is largely mitigated and new challenges have emerged. Now, the central investment question is increasingly whether a platform can deliver valuable power, in the right location, on a credible and near-term schedule, and retain an appropriate return after accounting for all the risks.

The maturation of the industry has changed the investment proposition in a few important ways. Proven operating capabilities and credible development execution are critical. Premium platforms have diversified fleets, procurement leverage, strong customer relationships, access to funding and capital discipline. We are seeing these dynamics drive industry consolidation, like for example MN8's pending acquisition of Greenbacker, which would create a platform of more than 6GW of capacity.

Another shift in the industry is in the demand drivers for new projects. Originally this was cost savings and policy mandates. However, now enterprise customers are buying speed to power, price certainty and resilience. We have witnessed this in our portfolio too: in the past year MN8 has announced PPAs with Meta, Microsoft and Google, illustrating that demand from digital infrastructure customers is now a core part of the growth story.

Lastly, the policy framework has shifted considerably. What was once a tailwind is now an execution test. Against this backdrop, we believe that what differentiates an attractive opportunity today is contracted cashflows with creditworthy off-takers; an operating team that can extract value from an existing fleet; a protected pipeline that is already positioned for the post-credit environment; and a capital structure that gives investors downside protection.

And what is so compelling about smart infrastructure?

The need is enormous and it is not going away. Much of the infrastructure that the MUSH sector relies on, such as water systems, lighting, HVAC, energy and communications, was built decades



What makes energy efficiency such an interesting space today?

Energy efficiency is underappreciated because it is unglamorous. There is rarely a ribbon-cutting ceremony for a boiler replacement. But from an investment perspective, it is extremely attractive.

In an environment of rising retail power prices, congested grids and years-long interconnection timelines, reducing load through energy efficiency is the fastest, cheapest and most reliable way to address the supply-demand imbalance. Energy efficiency projects pay for themselves out of avoided costs and are increasingly a strategic priority for facility owners who are being asked to do more with constrained capital budgets.

The main obstacle is often implementation capabilities and capital availability on the customer side. Even compelling projects must compete with other capital priorities, and the customer usually lacks either the engineering resources or appetite to manage installation and long-term performance of the projects. Ecosave and Environmental Infrastructure Partners address both of those obstacles.

Meanwhile, what makes this business model attractive from an investor perspective is that our platforms fund and own the underlying equipment and upgrades. This translates into long-dated, inflation-insulated, contracted revenue backed by essential equipment that the customer cannot operate their facilities without.

ago and is reaching or is beyond the end of its useful life.

There is a massive, deferred maintenance problem in the market, and at the same time, budgets are under pressure as pandemic-era federal funding rolls off, labour costs rise and borrowing capacity is consumed by competing priorities. The result is a large and growing gap between what needs to be replaced and what can be funded through traditional procurement.

The opportunity is to close that gap with a differentiated delivery model. Our investment is focused on funding, owning and operating essential infrastructure on behalf of customers, who pay for it over time rather than through an upfront capital appropriation or bond issuance. The customer gets modern and efficient infrastructure now, while preserving its balance sheet for other priorities.

Another benefit of the as-a-service approach is that a project can be optimised for lowest cost over the asset's useful life, not just the cheapest option upfront.

Lastly, this model addresses a challenge that goes beyond funding. Many public agencies and private owners don't have the in-house expertise or capacity to oversee complex infrastructure projects. The electrification of municipal and state fleets is a good example. EIP is carrying out statewide contracts with both the Hawaii and New Mexico Departments of Transportation to supply vertically integrated electrification infrastructure for their vehicle fleets.

> *"The cheapest and fastest megawatt is still the one you never have to generate"*

Q What opportunities and challenges are you seeing as a result of power demand from data centres?

After nearly two decades of flat electricity demand, the US is now in a period of sustained load growth, driven not just by data centres, but also reshoring of manufacturing and broader electrification trends. That is fundamentally positive for energy infrastructure investors, but it creates a real tension as generation, transmission and interconnection cannot be built as quickly as demand is arriving, and the cost of that gap is increasingly showing up in capacity prices and retail electricity bills.

This has a few implications for how we invest. The near-term binding constraint is the ability to deliver power quickly. That favours solar and storage, which remain among the fastest new energy resources to permit and build. Energy efficiency becomes more valuable, as well. When the grid is tight, a megawatt of avoided load is worth more than ever.

The second-order effects of the build-out of hyperscale campuses and gigawatt-scale power, such as strain on distribution systems, increased water demand and need for local resilience as grids tighten, fall disproportionately on the commercial, industrial and public-sector customers we serve. Behind-the-meter generation, storage and efficiency let those customers protect themselves from rising costs and reliability risk.

Q How has the political environment in the US changed the way you think about these investment themes?

The accelerated phase-out of solar and wind tax credits, new foreign-entity-of-concern sourcing restrictions, tariffs and shifting federal priorities have all required real adjustment across the industry – but this has not changed our conviction in the underlying themes. In fact, in some ways it has validated the way we built the portfolio.

> *"Policy volatility tends to create dislocation, and dislocation creates opportunity"*

We have always underwritten to the economics first and treated policy as either upside or as a risk to be managed. The businesses we own are driven by needs that exist regardless of who is in office.

Each investment theme carries a different degree of policy sensitivity. Energy efficiency is the most policy-agnostic. Infrastructure modernisation is driven by asset age and budget reality. Solar is where policy has mattered most historically, but the sector has matured to the point where well-positioned platforms with safe-harboured pipelines, compliant supply chains and enterprise customers buying speed to power remain highly competitive. Storage, notably, has been slightly more insulated from a policy perspective.

The affordability and reliability pressures created by rising demand are, if anything, bipartisan concerns that favour resources that can be built quickly and cheaply.

Furthermore, policy volatility also tends to create dislocation, and dislocation creates opportunity. For a lower mid-market investor with flexible capital, patience and deep sector knowledge, that is often when attractive investments emerge. ■