KEYNOTE INTERVIEW

The North Star of energy investment

The decarbonisation push is entering a compelling global phase, but success is increasingly defined by selectivity rather than scale, says Morgan Stanley Infrastructure Partners' Chris Ortega

The investment case for energy transition assets continues to strengthen, supported by energy generation demand growth and the escalating availability of long-term contracts that enhance earnings visibility and revenue stability. This demand growth is making many forms of energy assets more valuable, and energy-transition investing is increasingly one part of the solution.

At the same time, regulation remains a critical yet inherently uncertain factor and creates material complexity in pursuing energy transition investments over the next five to 10 years, believes Chris Ortega, managing director and head of Americas at Morgan Stanley Infrastructure Partners (MSIP).

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Rather than trying to predict policy shifts, he says that the key to success for energy investing is staying true to the North Star: fundamentals. Those are a focus on valuation, unit economics, and underwriting what can be secured from the outset, including offtake agreements and fully wrapped engineering contracts, as well as only including incentives, subsidies or tax credits that can be locked-in upfront. "In Europe, the risk comes from the country-by-country differences, while in the US it stems from changing administrations."

Q The energy transition has endured many twists. How would you describe the investment environment today?

The energy transition can be broadly divided into a few key segments. First is the renewables and power sector, where the investment environment is currently quite strong – particularly in the US.

For the first time in 25 years, power demand is growing, driven by data

centre expansion, reindustrialisation and broader electrification. As a result, this part of the ecosystem appears healthy and attractive from an investment perspective. The observation is that all megawatts have become more valuable in the current environment, including electricity generated from renewables.

A second major segment is transportation, most notably electric vehicles. The outlook here is more mixed. While EV adoption has grown, the underlying economics remain somewhat uncertain. For example, the expiration of tax credits in the US led to a temporary surge in demand followed by a slowdown.

More broadly, major automakers have reported significant write-downs in their EV businesses over the past 18 months, reflecting the challenges in scaling profitably. Regulation continues to play a significant role, and the market is still adjusting to find a sustainable balance.

Finally, the most challenging areas of the energy transition are those where viable economic models are still emerging. This includes biofuels, hydrogen, sustainable aviation fuel and carbon capture technologies such as direct air capture. These sectors remain in the early stages, with uncertainty around their ability to achieve commercial durability without continued government support. While parts of this segment of the energy transition space are progressing, others still require further development to prove long-term viability.

Q How do investors evaluate an energy transition investment today and how has that changed over time?

From our perspective, the way energy transition opportunities are evaluated has remained surprisingly consistent over time – and is the same way that we evaluate all energy investments. Our North Star is always the fundamentals – particularly valuation and unit economics. Investors want to understand the capital expenditure or cost to build, the expected revenues – often secured through long-term contracts like power purchase agreements – and the visibility they have on returns and exit opportunities.

What has changed is the market environment. Between 2021 and 2022, we saw significant enthusiasm and capital flow into the renewables sector based on broader narratives that resulted in investors paying for 'platform value' (beyond the value of existing assets and near-term pipeline) in situations.

However, when that platform value is properly allocated down to individual projects, the economics in many cases became less compelling. More disciplined investors pulled back during that time, as valuations became disconnected from underlying fundamentals. It was difficult to make the economics work in that environment.

More recently, the market has recalibrated. We have seen investors now placing far less emphasis on platform

Q How is the regulatory environment impacting the space?

Regulation in the US and Europe presents distinct but equally complex and evolving challenges. In the US, policy tends to shift in cyclical 'fits and starts', while Europe tends to be characterised by fragmentation. Although often treated as a single market, Europe consists of multiple countries, each with its own energy strategy and regulatory framework.

For example, France's continued reliance on nuclear power contrasts sharply with Germany's post-Fukushima decision to phase it out – a move that's contributed to Germany's persistently high industrial electricity prices.

Indeed, German industrial energy costs are currently significantly higher than in the US or China, placing considerable pressure on its industrial base. These differences underscore how regulatory choices and their economic consequences vary substantially across countries. Because of this, we believe success in Europe therefore depends on deep, country-specific insight and a strong local presence. We have seen that having teams on the ground is essential to understanding regulatory nuances, market dynamics and investment risks across each jurisdiction.

The US, by contrast, has evolved differently. Its primary challenge today is regulatory inconsistency. For example, shifts in policy regarding offshore wind can create significant financial uncertainty, making long-term commitments more difficult. This environment tends to favour projects that can be deployed quickly, such as solar and gas-fired generation, over long-lead infrastructure like nuclear or offshore wind, which face greater regulatory and execution risk.

premiums and instead focusing on the underlying operating assets and near-term project pipelines – areas where it's possible to form a strong point of view on unit economics.

Meanwhile, improving market fundamentals have made a meaningful difference. For example, power purchase agreement pricing for wind and solar has risen significantly – from roughly $40 to $60 per megawatt hour in recent years. This kind of shift can have a direct and powerful impact on project returns.

So, while the investment framework remains unchanged, the opportunity set has evolved. With stronger pricing and clearer economics, investors who previously held back are now finding the sector increasingly attractive. For us, the same North Star continues to guide our own decision-making, but we believe today's landscape is considerably more compelling.

Q Are there any countries in Europe that stand out in terms of opportunities?

Germany stands out as a country in urgent need of energy solutions. Its historical dependence on Russian natural gas, combined with the post-Fukushima decision to phase out nuclear power, has created an opportunity for additional energy supply. In fact, some senior German officials floated the reconsideration of nuclear, although restarting decommissioned plants would be highly capital intensive – estimated at approximately $1 billion-$2 billion per facility.

In the meantime, the country is increasingly turning to liquid natural gas, often relying on floating storage and regasification units as a faster, medium-term solution, while planning for larger, permanent regasification infrastructure over the longer term. In our view, while secular demand growth remains strong, investors must adopt a highly selective, micro-focused approach to identify opportunities and navigate the significant variability and policy uncertainty across the European market.

Q How is the current geopolitical environment affecting investment decisions?

Current geopolitical volatility, such as the Iran conflict, underscores the need for energy supply optionality, especially in Europe and Asia. For instance, the Strait of Hormuz handles 20 percent of global crude oil and a significant portion of LNG. Any disruption highlights the importance of supply diversification.

For us, that translates into opportunities in the US, particularly in LNG infrastructure – including liquefaction, pipelines, regasification and floating storage units – in order to maintain supply resiliency.

Beyond geography, technology diversification is also critical. The answer is not renewables versus thermal or nuclear. We need a mix of all energy sources to meet growing global demand.

Q Are there any energy transition technologies that you find particularly compelling?

As infrastructure investors, we focus on technologies with low execution risk and predictable earnings. Emerging technologies such as small modular reactors warrant monitoring, but they carry significant technology and regulatory risk and are not currently aligned with our investment strategy. We prioritise durability and visibility of cash-flows over speculative opportunities.

Battery storage is a key enabler of renewable generation, particularly utility-scale solar. It's most effective when integrated with generation assets rather than operated as a standalone trading business, which can be highly volatile. Our focus is on long-term, contracted structures that provide stable and predictable earnings streams.

Hydrogen remains economically challenging. Despite substantial subsidies and policy support, its commercial applications are still limited, and transport constraints further complicate scalability. Meaningful cost and technology improvements are still required before it can become a mainstream investment theme.

Overall, we believe that power generation offers attractive opportunities driven by strong secular demand, but success requires a highly selective, micro-focused approach – country by country and deal by deal – guided by unit economics as the North Star. While the global backdrop is compelling, disciplined assessment of risk and reward across each market remains essential.

Q How do you expect the definition of energy transition infrastructure to evolve over the next decade?

The definition of energy transition infrastructure has indeed evolved over time. In the early 2000s, it focused on solar and wind, with natural gas as a key bridging fuel. In the US, the largest CO2 reductions have come from switching from coal to gas, more than transitioning to EVs or even renewables.

While natural gas has faced scrutiny, it increasingly has re-emerged as part of the solution: cleaner than coal or heating oil, though not as carbon friendly as solar or wind.

However, given that the landscape has now shifted to a recognition that we need to balance energy reliability and affordability with CO2 impact, it seems increasingly clear that natural gas will be an important technology in achieving an equilibrium.

Our goal is a pragmatic approach that balances reducing CO2 emissions with maintaining economic growth, reliable energy supply and technological progress.

We believe that energy transition infrastructure must support both environmental stewardship and continued improvements in living standards. ■