

## **Managing ESG in the Energy Sector With Doug Kimmelman of Energy Capital Partners**

**David Snow, Privcap:**

Today we're joined by Doug Kimmelman of Energy Capital Partners. Doug, welcome to Privcap today, thanks for being here.

**Doug Kimmelman, Energy Capital Partners:**

Thanks, David. Thanks for having me.

**Snow:**

A very big topic within the energy industry is the environmental impact. Let's talk a bit about the fact that many people—both in the U.S. and around the world—view fossil fuels and fracking as being a negative for the environment. How does that affect your ability as an investor to get deals done? Do you think the industry has done enough to counter the image that these are uniformly bad for the environment?

**Kimmelman:**

Yeah, it is fascinating how the oil industry has always been pinned with these negative adjectives of evil and obscene profits and things like that—Exxon becoming kind of a bad word. The industry historically has done a pretty poor job talking about their product. Over the past hundred years, maybe we can put penicillin at the top of the list in terms of something that has really enhanced the quality of life and well being. But let's think about what energy has done for society. Where would we be today without fossil fuels? Let's think about how this has [raised] the standard of living. Let's think of the probably billions of people that this has taken out of poverty. Where would we be without transportation? Where would we be without airplanes? Where would we be without electricity?

So everything is a cost benefit. To say that energy is not dirty, I don't think would be quite fair. Of course, there are negative environmental consequences with regards to energy. But you have to do a little bit of a balancing act. I was at a recent conference and Rich Kinder, one of the industry leaders, joked and said we act as though we're making cigarettes here. I mean, this is a product that is helping people's lives and the industry has to do a better job talking about that.

The other thing the industry has to do is talk about how they are environmental stewards. Every energy company that I've ever been involved with, it is front and center. If you're not an environmental

steward, you're going to be out of business. It is good business, and it is wise business. They're maybe a little shy in terms of talking about that and talking about what they do in that regards. But environmental standards are getting tighter. Whether it's [with] regards to fracking, hydrocarbon transportation or air emissions—the industry has to try to stay in front of that because this is a product that society obviously needs.

**Snow:** You mentioned regulations. Obviously, energy is a very regulated industry. Specifically with regard to environmental regulations, which policies do you think have worked best and [have] been most effective?

**Kimmelman:** The renewable policies—I mentioned those earlier, and this has really come from the states. We have about 30 states that have told their utilities “We want you to be anywhere from, say, 5 percent of your electricity generation coming from renewable sources,” to California [that] is as much as 33 percent. Governor Brown is even proposing as much as 50 percent [renewable energy generation]. That really has been the catalyst to create an enormous renewable industry, especially wind and solar. And the federal government adding tax credits to the mix to help that industry come along has complemented that. But it's done a good thing with regards to the carbon footprint. It's done a good thing with regards to helping the acceleration of a shutdown of some of our dirtier coal plants in this country. It's worked very well.

We still have a way to go. Because of low natural gas prices, wind and solar are not yet competitive on an unsubsidized basis with natural-gas-fired generation. So we still do need subsidies, whether in the form of these, call it above-market contracts, that the states are requiring or tax credits. But the cost of wind and solar have dropped dramatically, and we're moving in that direction where they are becoming more and more competitive sources of power. That's been a very positive regulation.

**Snow:** As an investor, do you welcome the attempts of the government to shape an outcome with regard to what kinds of energy is used to create electricity?

**Kimmelman:** Sometimes we need a little bit of an early push. What the government needs to do after that early push, to perhaps get an industry started, a technology started, or put that technology on the glide path to lower costs—then the government needs to back away. There's going to be much debate as many of these tax subsidies on the federal level expire in 2016. There's going to be a lot of debate of whether now's the time to pull it back, and [whether] wind and solar stand on their own two

feet. The day will soon come that wind and solar and other renewable sources are told that it's time you stand on your own two feet. So I don't think there's anything wrong with the government putting policies in place to get us started in the right direction. But at some point, the free markets have to take over. And that's an evolution that we're seeing.

**Snow:** Does your firm invest in renewables?

**Kimmelman:** We do. We're very proud. We developed two of the largest solar sites in the world, selling both into Pacific Gas and Electric in California. So we're very proud of that. We've been a very large owner of hydrogeneration assets going back to the late '90s. We also do a lot of things on the environmental side with regards to emissions, from coal fire power plants and trying to clean those things up. We do a number of things on nuclear decommissioning. So yes, environmental investments in renewable investments have been an area that we've had a good experience with.

**Snow:** With natural gas prices so low, are you worried that the competition against natural-gas-powered plants makes the economics of your wind and solar providers not competitive?

**Kimmelman:** Yeah, it's very challenging. Again, today I feel bad for all of those scientists and researchers that have done such a great job improving solar panel and wind farm efficiencies. They've exceeded their expectations. But this thing called natural gas has dropped so precipitously that the bar for them has just gotten lower. The competition has gotten tougher.

Wind and solar, for the most part, in most regions—if not all regions—of the country are not yet competitive without subsidies. Natural gas is not necessarily going to stay at \$2.50 forever. That price starts moving a little bit. We're starting to export natural gas. L&G facilities are being permitted to the extent that this becomes more of a global commodity. The price of natural gas in Europe and Asia is five-to-six times what it is here in the United States. So if we see a little bit of a higher natural gas price, a little bit higher interest rates, and if wind and solar continue on those technological advances and cost reductions, we can get closer to parity, and I think that will happen.