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GIC's sustainability head sees investment opportunities in grid development

With the rapid expansion of power generation capacity from renewable sources, it is inevitable that this will be the next phase for renewable power generation to be successful, adds Emily Chew. BY JANICE LIM

THE clean energy transition has opened up investment opportunities in grid development and expansion, said Emily Chew, head of sustainability at Singapore sovereign wealth fund GIC.

With the rapid expansion of power generation capacity from renewable sources, it is inevitable that grid development will be the next phase in the energy transition journey for renewable power generation to be successful, said Chew, who was speaking at a recent conference held by the National University of Singapore's (NUS) Sustainable and Green Finance Institute.

"There's a lot of focus right now in the investment management industry on opportunities in effective grid management and build out," she added. "It's a precursor to the future success of renewable deployment and clean energy transition… And the spike that we see in (energy) growth demand is going to help build out and make that next phase happen, possibly accelerate."

The addition of renewable energy capacity across the globe over the last few years has not been met with similar upgrades to countries' national power grids.

Legacy grid and transmission systems were originally set up to handle the stable flow of energy from centralised fossil fuel power plants. As more renewable energy came online, problems relating to grid instability and unreliability have also emerged, given that solar and wind are intermittent sources of power.

The need to invest in power grids that can accommodate renewable power is one example of a structural shift towards a climate-adjusted future that long-term investors like GIC need to take note of.

While markets have been seized with volatility and uncertainty with regard to sustainable investing in light of the rolling back of several climate policies in the United States under President Donald Trump, Chew said that GIC needs to maintain its focus on fundamental asset values in its long-term asset allocation strategy. "Investors are reacting to noise and headlines… However, long-term investors cannot afford to put aside the systemic impact of climate change in favour of the noise," she noted.

Based on GIC's analysis on various scenarios, climate change has been found to be a drag on returns and is deflationary on asset prices.

Even though renewable energy investment has not yet proven to be reliable in generating returns for investors, Chew explained that there were several long-term structural trends that represent tailwinds for the sector.

Speaking at a recent conference held by NUS' Sustainable and Green Finance Institute, GIC's Emily Chew said: "We're living in a world of not either this energy or that energy, but more and more energy. We're living in a reality of energy addition." PHOTO: NATIONAL UNIVERSITY OF SINGAPORE

Besides grid development, growing energy demand, advancements in energy efficiency as well as the increasing commerciality of energy storage solutions such as batteries and liquid storage fuels were other important shifts to take into account.

While the role of fossil fuels is likely to increase under the Trump administration, Chew said that it may still not be enough to meet the increase in demand for energy, which means that the build-up of renewable energy generation capacity will continue to accelerate.

"We're living in a world of not either this energy or that energy, but more and more energy. We're living in a reality of energy addition. And so, even though there's a purported pivot in the US back to traditional energy, there will be more than sufficient demand to keep renewable energy technologies well deployed and growing throughout this period," she added.

Furthermore, outside of the US, policy momentum on decarbonisation remains strong in the medium term in other markets, including the European Union, China, Australia and the United Kingdom.

GIC's long-term view on how the energy transition would progress is that countries which shift towards more sustainable and affordable sources of energy will enjoy more advantages, while those that lock in on "dirtier" and more expensive energy supply sources will be disadvantaged.

Against the backdrop of potentially escalating tariffs between major economic powers, Chew also pointed out that this may result in closer trade ties between China – which is the world's largest manufacturer of various clean energy technologies – and developing countries looking to build their green energy supply chains.

Taking into account all these developments, GIC has a "stronger conviction" that the world is moving towards a scenario where global warming reaches between 2 and 3 deg Celsius. It noted about two years ago that this scenario was "marginally predominant".

This means the world would have failed to reach the Paris Agreement goal of limiting temperature rise to well below 2 deg C, with an aim of 1.5 deg C.

Known as the "too little, too late" scenario, it is one out of four climate scenarios that the investor has come up with to analyse how potential future climate conditions might impact their investments and help them build portfolios more resilient to climate-related risks. The other three are net-zero, delayed disorderly transition and a failed transition.

With the latest scientific data showing that global warming might have already surpassed the 1.5 deg C threshold, Chew said that GIC must "orient towards a warmer temperature outcome and look towards managing the physical risks inherent to this in investment portfolios". This means turning its attention to the need for investment in climate solutions, climate transition and climate adaptation.

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