

Energy Transition

Energy Evolution

The energy industry continues to evolve as sectors converge and as demand, supply and consumer preferences change. The global economy is shifting to lower-carbon sources of energy, coinciding with (or resulting from) a renewed focus on environmental, social and governance (ESG) issues. “Energy transition” is commonly used to describe the recent full-court press towards cleaner energy; however, energy evolution, energy progression, energy advancement and a host of other terms have all been used to describe achievement towards a net-zero carbon world. The recent policy focus on renewable and clean energy, which has trickled down to capital preferences, consumer demand and other forces, is driving discussions and decisions towards “cleaner” energy, and, in certain instances, away from traditional fossil fuels. From a marginal dollar perspective, capital is flowing into alternative energy projects and away from traditional natural resources; however, traditional natural resource-based energy sources will continue to play a key role in the world’s overall energy mix well into the future.

To help clients navigate the changing landscape, Mayer Brown has launched a multi-faceted service approach, combining its renowned power and utilities and renewable finance practices with a commercial, full-scale traditional energy and energy transition team. This inclusive service approach will provide clients with an integrated, comprehensive view of investments and transactions, from initial planning and asset-level commercial contracting through financing, attracting capital and ultimately exit.

The ESG focus, which is driving financial statement and disclosure changes, insurance and financing mandates, and changes in capital preferences—especially those found in traditional energy-focused private equity funds and other institutional investors—is intriguing. Regulators and capital providers are continuing to weigh and assess current returns compared to long-term environmental value. Additionally, application of ESG initiatives in developing countries will likely be very different from that in developed countries. As a result, there is not a “one-size-fits-all” approach; rather, it truly is an “and” and not an “or” when evaluating traditional energy sources and renewable energy, and assessing the current landscape in light of future energy demand and supply sources is critical.

Companies are analyzing whether to pivot or to expand, or a combination thereof, as the continued shift towards greener or cleaner energy sources progresses. For example, power and utility companies, while evaluating how to modernize and decarbonize the electric grid, continue to believe that traditional fuels like natural gas, coal, oil and nuclear power will have a significant role to play. Traditional fuels can certainly fit within a net-zero strategy if produced in a cleaner, more efficient manner, together with emissions reduction such as carbon capture and storage. Further, traditional mining companies will play a critical role in the expansion of traditional renewable energy (and the developments in, and increased production of, batteries), as the minerals and components in renewable power sources are extracted from the earth.

The changes underway within the energy industry are multifaceted and require a multi-pronged operational and investment approach. Certainly there will be a continued focus in traditional renewable energy investments such as wind and solar; however, innovation should continue to drive various ways to use traditional natural resource-based energy sources in a more efficient manner (reducing carbon and methane). Innovation will remain front and center for the industry (whether that be in the traditional natural resource-based market participants or the traditional power or renewable participants). Complimentary (as opposed to mutually exclusive) activities and market opportunities exist—with carbon capture use and sequestration serving as a bridge between sources that leverage the know-how and experience of hydrocarbon-based businesses. For example, hydrogen is a clean fuel that can be produced from multiple sources including natural gas, biomass, solar and wind and can utilize the nation’s existing midstream infrastructure for transport (with certain retrofitting and upgrades). Further, sources such as biofuels, biomass, waste-to-energy and a variety of other innovative sources will likely continue to be developed and deployed.

Investors are demanding companies focus on building for the future, and investing in ESG has gained widespread appeal—ESG will continue to become an ever-increasing part of the discussions with investors, insurers and financiers. More importantly, it is the right thing to do.

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