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ENERGY SECTOR

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in the energy sector.

UNITED STATES

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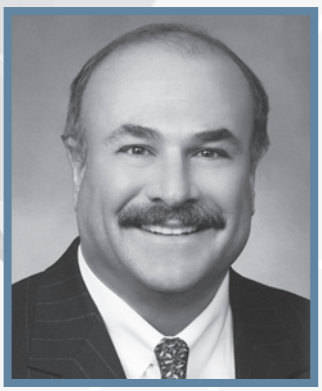
Respondent



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Clinton Vince is the chair of Dentons' US energy practice and co-chair of Dentons' global energy sector for the US. He is one of the leading energy lawyers in the US, widely recognised as a 'trailblazer' for his cutting-edge theories and solutions within the energy industry. He remains at the forefront of energy developments and continuously handles some of the highest profile cases in the industry. He created the groundbreaking Dentons Global Smart Cities & Connected Communities Think Tank and he is one of the industry leaders on this subject.

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Q. Reflecting on the last year or so, what major trends would you highlight in the energy sector in the US?

A. In the US, the jagged geopolitics wrought by Putin's extreme 'energy warfare' and global supply issues have combined with domestic challenges, including serious unresolved siting, permitting and mining reform issues and inadequate infrastructure, to create a new paradigm for the energy sector. Insufficient, antiquated transmission infrastructure and severe interconnection problems impact deployment of traditional and renewable resources needed to support increased demand and address climate concerns. This has played out against a backdrop of other megatrends and disruptions transforming the energy industry and causing us to redefine what we mean when we speak of 'security'. Turbulent and extreme weather and cyber intrusion remain of highest concern. Meanwhile, dramatic advances in technology, including transformational developments in artificial intelligence (AI), increased use of distributed energy resources, and the rise of virtual power plants are accelerating changes across sectors at a pace never before experienced. To take advantage of these developments, there needs to be greater improvement in domestic policy and the removal of the current layered regulatory impediments and uncoordinated bureaucracy.

Q. What kinds of risks and challenges are energy executives facing in today's market? How are these factors impacting business activities?

A. Today's market is like a chess game, with rules that are in continual flux. In addition to the many risks related to the mega trends seen across the sector, several of the dominant challenges facing energy executives include wildly divided political approaches to climate, unresolved jurisdictional conflicts, legislative stalemate and extreme judicial rulings injecting further uncertainty into the legal and regulatory landscape, supply chain issues and dramatically inadequate infrastructure colliding with greatly increased demand for electricity and other forms of energy, and technological changes outpacing the development of physical and social infrastructure. Other issues keeping energy executives awake at night include the lack

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of consensus on whether environmental, social and governance (ESG) should be promoted or reviled, mass retirements of baby boomers resulting in loss of decades of institutional knowledge, and social tensions whose ripple effects impact the entire economy. Energy executives are being forced to become more agile in responding to changes that come quickly and often unexpectedly.

Q. How do you expect the energy transition to evolve in the US over the coming years? What opportunities and hurdles does this shift present?

A. The urgent climate imperative, resource issues and technological advancements will drive the energy transition in a number of ways. The electric grid will be modernised and integrated with modern communication systems, which, in turn, will impact every sector of the economy. The transition to a multidirectional grid will allow increased deployment of renewables and demand-side resources, and will give customers greater opportunities and selectivity. As the energy systems decarbonise, there will be a significant transition in fuel sources away from fossil fuels. Already, there is increasing emphasis on advancing carbon capture and sequestration technology, exploring use of hydrogen, rolling out electric vehicles (EVs) and battery packs, and focus on the role of efficiency and conservation. Many companies are already seeking to adapt their business models to take advantage of the opportunities the energy transition offers. Politically, there is a push in some regions of the country to roll back environmental and other restrictions to allow increased production of fossil fuels, especially natural gas which is likely to remain in the fuel mix in some form for the immediate future.

Q. What recent, notable energy policies and regulations have been introduced in the US? What has been the impact?

A. Three significant pieces of legislation passed in recent years – the Bipartisan Infrastructure Law, the Inflation Reduction Act and the Chips and Science Act – are designed to jumpstart much needed infrastructure and innovation and are pouring a tremendous amount of new capital into the energy industry. The Department of Energy and the Internal

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Revenue Service are still working on the implementation phase, so it is early days. Nevertheless, these measures have already sparked potentially game-changing innovation in areas like hydrogen, where the US lags behind other regions, in carbon capture, and in efficiency. These laws also have provided significant investment and production incentives for carbon-neutral energy, which will help the Biden administration meet its decarbonisation goal of 100 percent clean electricity by 2035. Looking forward, policymakers are seeking comprehensive permitting reform, which will help advance not only renewable energy projects but also natural gas projects, which are essential to providing baseload during the electrification transition.

Q. Have you seen an increase in restructuring initiatives undertaken by energy and utilities companies? If so, what are the underlying drivers?

A. The past year in the US saw fewer restructurings than in previous years, and it is still uncertain what this year will yield. It is anticipated that the Federal Reserve will begin to ease off on its support of

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credit markets, which may result in challenging conditions for highly leveraged companies. Meanwhile, energy companies are facing simultaneous pressures to diversify their portfolios to hedge against long term price, demand and regulatory risk, and to enhance existing operations with focus on core businesses.

Q. How would you describe M&A activity in the sector? What factors are spurring deals?

A. We are seeing increased investment in clean energy projects and in renewable gas (RNG) projects in the US. RNG has traditionally been a vehicle fuel, but its use is expanding to municipalities, large industrial plants and university campuses, among others. There also continues to be quite a bit of activity in the wind and solar markets with sales of projects under development. High interest rates and financing costs are challenges. Gas continues to be an important component of the US energy mix because of the reliability it lends to the system. For the first time in several years, we also are seeing increased interest in nuclear. It is a proven technology and the US has the benefit of its own uranium resources as well as geographical attributes favourable to nuclear. The infrastructure and inflation reduction bills contain many incentives and will direct a lot of dollars toward the energy sector. Once the incentives are implemented, a flurry of investment is expected.

Q. What overarching developments do you expect to see going forward? What issues are set to shape energy policy and market activity in the months and years ahead?

A. The importance of climate and weather events, along with the need for increased protections against cyber and physical intrusion, cannot be overemphasised. These imperatives will have a profound effect on the direction of the energy sector. Headlines announcing historical flooding in New England, overheated water in Florida destroying coral reefs, a dramatic increase in the number and strength of hurricanes and tornadoes, massive western and Canadian wildfires burning out of control, and attacks on power plants, to name a few, have energy executives and the markets on edge.

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Winter storm Uri two years ago was an object lesson in how unprepared we are for catastrophic disruption to our energy systems. Technology will take a primary role in shaping our energy future. AI and virtual systems hold significant promise but also risks that we are only beginning to understand. These and other nascent technologies will have a huge impact on the energy sector, but so too will consumers who are interacting with the energy systems in so many ways and who ultimately are asked to foot the bill. ❑

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