



Investment Talk

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ENERGY EFFICIENCY AND GREEN HEATING

What's your key investment theme for 2023?

I keep my eyes and ears open for opportunities in the energy efficiency (EE) sector with a particular focus on green heat, one that replaces the use of gas or diesel.

We've recently invested in a greenfield district heating network fuelled with biomass that will service the city of Cuenca, Spain, and we've secured a pipeline of similar opportunities for our latest fund, Marguerite III.

What's unique about the sector?

Green heat is an exciting opportunity as it has all the characteristics of core infrastructure:

the stability of contracted revenues and predictability of cash flows, sustainable competitive advantage and protected market position, and longevity and resilience of the infrastructure asset. At the same time, what is unique is how impactful it is in the climate debate.

Energy efficiency is a pivotal contributor to reducing climate change risks as it contributes the most to CO2 reduction.

Anything energy efficient saves energy use and leads to resource preservation. At the same time, if you are directly moving away from fossil fuels, instead of using gas or diesel for heating homes, i.e. using green sources for heating, like sustainable biomass – a wood residue, then the

CO2 reduction is compounded.

We should also not forget the social aspect of energy efficiency. By retrofitting buildings and improving thermal insulation by replacing, for instance, windows and external doors to ensure air-tightness, we're improving people's quality of life and enabling the reduction of energy consumption.

There's also a direct financial impact - with gas being very expensive, investing in energy efficiency helps families and businesses to save money.

In the case of Cuenca, we are providing an essential service and delivering the heat at a significantly lower cost than the current gas bills, generated by biomass.

What's the sector's potential?

So far in Europe, the electricity sector has been the primary focus of low-carbon policies. However, if Europe is to meet its climate objectives, decarbonisation efforts must expand to other industries, including heating and cooling.

Any savings for the community and businesses is a topic that local politicians are keen to support, and so projects like our investment in Cuenca are bound to proliferate. The potential for the sector is vast, with green heating replacing traditional heating both in housing and commercial buildings.

Because of the price and environmental considerations, we're seeing an accelerating shift towards centralised district heating powered by green heat. One of the primary resources used is sustainable biomass: agricultural waste and wood residue from cleaning forests and the pulp and paper

industry. The main investment is a biomass heat-only plant, which can be built and operational in approximately nine months, and the backbone network. The network is then expanded in line with demand and the growing contractual base of end clients.

How does green heating benefit corporates and individuals?

Heating costs have suddenly started to eat company profits, while in the case of individuals, some will not be able to afford to heat their homes, affecting their well-being. Even concentrating on work is hard when the room temperature is not optimal. And even if you are willing to pay the high price, with gas shortages, you might simply not have it in the pipes.

The benefits of investing in energy efficiency with a centralised district heating network and

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switching to alternative green heating sources are straightforward: you need to heat less, and when you do, it's cheaper.

What are the industry risks or constraints?

Until recently, easily accessible and cheap gas was abundant. The war in Ukraine has forced people and politicians to question the traditional fossil fuel-based systems.

Now that gas supply is no longer a given, even less so cheap gas, and so the interest in energy



efficiency and the push for switching to green heating is booming.

Once the geopolitical situation stabilises, gas prices will likely decrease significantly, and some might be tempted to return to the status quo.

Investors need to ensure that the EE projects they invest in are robust enough to remain competitive in a scenario of gas prices going down again. Therefore, when selecting projects for our portfolio, we focus on their competitiveness and the capacity to hybridise the network, such as capturing waste heat from nearby industries to reinforce their competitive position and sustainability.

Like with other infrastructure sectors, you also need to look at the technology and service quality. If the heating does not work, end users will not care that it's cheaper or greener. So good customer service and quick response is essential.

What geographies are you focusing on and why?

The projects we've secured for Marguerite III are, for the time being, based in Spain and Italy, where the market is less competitive. But other countries such as Germany, Central Europe and the Nordics also have potential.

In all these geographies, biomass is abundant with sourcing possible close to the plants,

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minimising the need to transport the resource, which would be counterproductive due to transport-related cost and CO2 emissions.

What nuances should investors look for when choosing where to put their money?

Spain and Italy are attractive because district heating is a relatively new concept in these countries where the market is less crowded, and there are opportunities to develop new networks. Once you secure a permit – and there's political support to build these networks – it's a liberal, open market. Unlike concession-based projects, there is no right to operate the network for a predetermined number of years, but in practice, once you've put your pipes through, it's highly unlikely someone else would build a parallel network and offer the same services to your clients. It's a first-come, first-served market setup, so competition is fierce, but in exchange, you receive built-in protection.



In the Nordics, on the contrary, district heating infrastructure is abundant, and the market is concession based. Thanks to the model, you have operational security for a predefined period but with a predefined return.

Then there's Germany, which recently got the EU's green light for its €2.98 billion subsidy scheme to promote green heating based on renewable energy and waste heat.

scenario, the investment case is now stronger than ever, making the sector very attractive. Furthermore, with growing end-user volumes, the industry is attracting more and more investment as the green angle of energy efficiency remains compelling.

Over the past ten years, there's been significant attention paid to the renewable energy sector. Now, the same attention should

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angle of energy efficiency remains attractive.***

It's a market that we continue to review as well.

Why should investors turn to EE projects over other opportunities?

With the strong commitment of investors towards mitigating climate risks looking for greener alternative solutions, topped with much higher gas prices than in a base

be paid to the energy efficiency sector, given its great untapped potential.

The EU target is an increase in district heating from today's level of 10% to approximately 20% by 2030 and 50% by 2050.

**Pilar Gomez**

Partner and Head of ESG at
Marguerite

Pilar Gomez joined Marguerite in 2010 and has more than 25+ years of wide-ranging international experience in investing and raising financing for greenfield infrastructure.

She has contributed to Marguerite's successful investment and divestment of infrastructure assets, with a particular focus on renewables (solar and biomass), transport infrastructure and energy efficiency. She recently closed an investment in a platform of green heating assets in Spain.

Her focus remains on originating and closing low-carbon, climate-aligned opportunities for investment across Europe.

She joined Marguerite from the Santander Infrastructure Fund where she was an investment director managing investments in the UK water and waste sector. Earlier in her career, she worked as a senior banker in the EBRD where she led a number of landmark infrastructure concession financings in Eastern Europe. She started working in project finance at the Santander Group.

About Marguerite

Marguerite is a pan-European investor in long-life greenfield and brownfield expansion infrastructure.

Our funds seek out capital-intensive, sustainable investment opportunities with a particular focus on four sectors: (1) Energy & renewables, (2) Digital transformation, (3) Waste & Water and (4) Transport. Since the launch of our first fund, we've deployed in excess of €1.5 billion into projects designed to address the changing infrastructure landscape in Europe by integrating ESG principles and creating positive change for society.

From our origins in 2010 as an independent infrastructure investment manager backed by the European Investment Bank and the main European National Promotional Banks, we have evolved into a fund manager dedicated to generating value for investors while integrating robust ESG screening as part of our eligibility criteria and continuously measuring the positive impact of our investments.

Our team is based in Luxembourg and Paris.
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