

## ARDIAN

# Natural gas is an essential component of the energy transition



In today's rapidly shifting energy landscape, the importance of natural gas-fired generation as a long-term, reliable power source – particularly amidst the wider push toward clean energy alternatives – has been underestimated.

Natural gas has received a mixed reaction in the institutional investment space when compared to alternatives, such as wind and solar. Since natural gas overtook coal as the top source of energy production in the United States in 2016, the sector has experienced slower levels of investment growth. When the sustainability movement kicked off in earnest later in the decade, many saw natural gas as a no-go zone for investments, grouping it with other fuel sources, such as coal.

However, while renewable energy sources can lead to lower emissions, their intermittency is a challenge for operating and maintaining a reliable grid. For lack of a more cost-effective and reliable option, many have adopted a friendlier view toward natural gas-powered energy generation and see it as a way to supplement renewables generation and provide consistent energy security.

Natural gas has the necessary characteristics to continue to be a

leading component of the energy transition, along with renewables and storage, as part of an "all-of-the-above" strategy. First, it is important to remember that natural gas was the original energy transition play more than 20 years ago. During the past 10 years alone, power generation from natural gas-fired plants has increased almost 60 percent and has increased its market share from 27 percent to 43 percent, taking most of that market share from less-efficient coal-fired generation. Natural gas generation was and continues to be an extremely reliable, flexible and an increasingly efficient source of power. Natural gas is also abundantly available throughout the entire country.

## Understanding the current energy demand environment

Given the increasing electrification of the economy, a secure, reliable supply of electric power is becoming a more critical and visible driver of the economy. The electrification of the economy has contributed to stress on the energy grid. The electrification of the transportation sector is in its infancy; the residential energy sector has seen the adoption of heat pumps and other electricity-dependent appliances; and electricity is also

increasingly harnessed to support various manufacturing processes.

This growing energy demand is especially acute given the current boom in the digital sector, specifically the development of new data centers across the country. Private capital is pouring into power-hungry AI-supporting data centers, which is putting a strain on existing generation capacity. This will no doubt further amplify the need for new reliable generation. The numbers back it up. In a recent report, McKinsey & Co. estimated that data center electricity consumption could increase to more than 10 percent of the country's demand by the end of the decade, up from approximately 4 percent today. In addition, PJM's most recent demand forecast predicts a 2.4



percent annual increase in energy demand during the next decade, primarily driven by data center growth. While the increasing adoption of renewable energy will help meet growing power demands, it cannot do it alone. The increasing share of renewable generation brings with it reliability challenges, especially for data center load, which requires near 100 percent reliability. Nuclear power has been discussed as an option to meet this new load, with recent announcements from tech giants including Microsoft and Amazon. However, there will likely be a prolonged development period for new nuclear facilities.

### How natural gas can fill the coming supply gap

There is a clear and compelling opportunity to invest in gas-fired generation, given its leading position in the market and its complement to renewable energy sources, ensuring the reliability of the power grid.

- Natural gas remains a cost-competitive form of power generation. The combination of an abundant supply of domestically sourced, low-cost, clean-burning natural gas and increasing gas turbines will keep it that way for decades to come.
- Natural gas-powered production is efficient, reliable, and flexible,

being able to operate as both a base load resource and a peaking resource to complement intermittent renewable generation.

- Gas-fired generation has a very efficient footprint, making it possible to site in locations where land is a limited (and expensive) resource. For example, the industrial and urban growth of Northern Virginia, home to the most active data center market in the world, relies on natural gas to meet the vast majority high energy demands.
- Gas-fired generation has the benefit of incumbency. All 11 major electricity regions in the United States currently rely on natural gas to meet a significant share of their power load. Much of the supporting physical and regulatory infrastructure exists, and policy regimes are, for the most part, established and predictable.

### How Ardian approaches investments in the energy sector

Ardian remains committed to investing in clean, efficient energy assets, mirroring the power markets in the U.S.. At the time of this writing, 2024 was on track to see the highest level of new gas-power generation projects announced since at least 2017, while some OEMs have announced strong backlogs in gas turbine deliveries for at least the next three years.



While investment levels in gas-fired generation are seeing a resurgence, investments in new renewable and storage projects continue to grow at an impressive rate. Through pursuing a multifaceted strategy and investing in both natural gas and renewable energy, Ardian can continue to help provide reliable and cost-effective power to the customers in North America.

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#### COMPANY OVERVIEW

**Ardian** is a world-leading private investment house, managing or advising \$176 billion of assets on behalf of more than 1,720 clients globally. Our broad expertise, spanning Private Equity, Real Assets and Credit, enables us to offer a wide range of investment opportunities and respond flexibly to our clients' differing needs. Through Ardian Customized Solutions, we create bespoke portfolios that allow institutional clients to specify the precise mix of assets they require and to gain access to funds managed by leading third-party sponsors. Private Wealth Solutions offers dedicated services and access solutions for private banks, family offices and private institutional investors worldwide. Ardian's main shareholding group is its employees and we place great emphasis on developing its people and fostering a collaborative culture based on collective intelligence. Our 1,050+ employees, spread across 19 offices in Europe, the Americas, Asia and Middle East are strongly committed to the principles of Responsible Investment and are determined to make finance a force for good in society. Our goal is to deliver excellent investment performance combined with high ethical standards and social responsibility.

At Ardian we invest all of ourselves in building companies that last.

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