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U.S. energy transition investing: Putting fundamentals first

The need for incremental power supplies, combined with favorable economic drivers, today compose the primary engine of the U.S. energy transition. That should be good news for investors.

For much of the past year, the narrative around U.S. renewables was dominated by politics. Rhetoric sharpened last year; federal incentives were revisited; and elements of clean energy support were ultimately scaled back, with subsidies set to phase out between now and 2030.

Yet beyond Washington, capital allocation decisions are being driven by a simpler force: electricity demand expectations continue to rise.

As **head of U.S. investments at Schroders Greencoat, Saad Qais** has seen firsthand how investor focus is shifting from policy to fundamentals.

He argues that the question for infrastructure investors is no longer whether policy support will remain generous. It is, instead, whether the U.S. power system can add capacity fast enough – and at competitive enough cost – to meet structurally higher load growth. Through this lens, renewable-energy infrastructure remains front and center among allocators.

Saad sat down with **Hillary Ripley, who heads Schroders Greencoat's North American business development team,** to discuss the current state of the U.S. energy transition and what it all means for investors.

Hillary Ripley: You've been active in the energy market for nearly three decades, including 15 years in renewables. From your vantage point, how should we think about the rollback of tax incentives following passage of the OBBB last year?

Saad Qais: Recent adjustments have indeed trimmed some incentives. But the change has been phased rather than abrupt. More specifically, projects that commence construction within specified timeframes can continue to qualify for credits through the latter part of the decade, providing developers with visibility rather than a cliff edge.

That glide path matters. It allows capital to be deployed with clarity on timelines, and in some cases has accelerated activity as sponsors seek to secure eligibility before support tapers.

More fundamentally, the economics of renewables are increasingly independent of subsidies. According to Lazard's latest "Levelized Cost of Energy" analysis, utility-scale solar and onshore wind remain among the lowest-cost sources of new-build generation on an unsubsidized basis in many U.S. regions.

So, while the policy backdrop has shifted, the underlying economics haven't fundamentally changed.

As federal support gradually recedes, projects will be underwritten on power prices rather than on tax credits. For long-term infrastructure investors, that shift away from regulatory support will likely focus investment assessment on fundamentals, ultimately broadening participation and reducing reliance on a concentrated tax equity market.

Ripley: We read a lot about the expected role of artificial intelligence in load growth in the coming years. We also hear about other sources of electricity demand growth, such as the electrification of transport, heating, cooling and industrial reshoring. At the risk of sounding like a skeptic, it can sometimes start to sound a bit like the dot-com bubble of the late '90s. Can you help me better understand the expected acceleration in U.S. electricity demand?

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Qais: That skepticism is healthy. For more than a decade, U.S. electricity consumption was broadly stagnant. Data from the U.S. Energy Information Administration (EIA) show that total retail electricity sales were largely flat between the mid-2000s and 2020, following decades of steady growth.

That period appears to be ending. The EIA and the International Energy Agency (IEA) both project renewed load growth during the next decade, driven by the general demand growth and the rapid expansion of data centers that, amid the rise of AI, is expected to be one of the fastest-growing sources of electricity demand globally. Beyond the next decade, the electrification of transport and heating, in addition to industrial reshoring, is expected to contribute to continued demand growth.

If demand were to grow at even 2 percent to 3 percent annually – well above the near-zero average of the 2010s – the implications would be significant. Sustained growth at those levels would imply a near doubling of required generation capacity over roughly 25 to 35 years.

The challenge is compounded by retirements of existing assets. Coal-fired generation continues to decline, and parts of the nuclear fleet face economic and operational pressures. Even gas-fired plants, though more modern, are not immune to age and policy constraints.

Ripley: Unlike many other countries, we've benefited from a shale gas revolution in the U.S. since the early 2000s. Why can't this meet the shortfall?

Qais: Without a doubt, natural gas still sits at the center of U.S. power markets. In most regions it is the marginal fuel, the one that effectively sets the clearing price for electricity. If demand is rising and coal is retiring, the intuitive answer is straightforward: Build more gas.

But it is not that simple. Developers looking to order new combined-cycle turbines are facing queues that stretch years rather than months. Manufacturers' order books are full, reflecting a surge in global demand for gas-fired capacity. Delivery timelines have lengthened, and capital costs are higher than they were before the pandemic.

So, what once looked like a relatively quick way to add firm capacity now carries its own lead-time risk.

Fuel is another critical question. While the U.S. has enjoyed structurally low natural gas prices for much of the past decade, that advantage may narrow as LNG export capacity expands and domestic markets become more exposed to global pricing dynamics. Because gas frequently sets wholesale electricity prices, any sustained increase in fuel costs flows directly through to end users.

In this context, renewables look like a pragmatic choice. Wind and solar projects are often permitted and built faster than large thermal plants. Once operational, they carry no fuel exposure. This means that investors can reliably project what their cost base will look like during the life of the asset.

Gas will, of course, remain indispensable for balancing the system for some time to come. But in a market where speed matters and price volatility is creeping back into the equation, the relative appeal of renewables is increasingly rooted in certainty rather than subsidy.

Ripley: If renewables are so competitive, what is the bottleneck? Shouldn't an efficient market drive efficient build-out?

Qais: If we were looking at generation assets in isolation, we might expect the relative competitiveness of the generation to dictate the timing and characterization of the build-out, but this ecosystem is a bit more complicated. Put simply, the timing constraint is less about generation technology than grid infrastructure.

For example, there exist serious structural limitations in transmission capacity, which affects the evolution of where and how renewable power generation is being built. In California, for example, historical generation was concentrated along the coast. Much of today's solar build-out is inland, requiring reconfiguration of transmission flows to deliver power to coastal load centers.

This results in material impacts on pricing, which in turn can create headwinds to the investment case for developers. Texas – which led U.S. wind output in 2024, generating about 28 percent of all U.S. wind power – offers a real-time illustration. Publicly available data from the Electric Reliability Council of Texas (ERCOT) regularly show sharp zonal price divergence during periods of high wind output and transmission congestion. Wind-rich regions can experience depressed or even negative prices, while urban zones clear at materially higher levels.

In a fully unconstrained grid, those prices would converge. Instead, congestion creates volatility – and inefficiency – underscoring the need for transmission investment.

Building new high-voltage lines is politically sensitive, but without reinforcement the U.S. risks layering new generation on to an aging backbone. Advanced grid management technologies may improve utilization of existing infrastructure, yet over time the development of physical capacity appears unavoidable.

Ripley: What role can storage play in the commercial viability of renewables-based generation?

Qais: Battery energy storage has expanded rapidly. According to the EIA, utility-scale battery capacity in the U.S. has grown at a record pace during the past two years, with Texas and California leading deployment.

Storage enables renewable output to be shifted into peak demand periods, reducing curtailment and capturing higher prices. Hybrid projects that combine solar or wind with colocated storage are also increasingly standard.

Batteries can store power generation when there are either higher levels of supply, or lower levels of demand – and then provide this to the grid when supply dips or demand increases. This smooths the supply/demand dynamic, providing a more consistent supply of power that better reacts to the variability of demand.

While storage does not eliminate the need for firm generation, it does narrow the intermittency gap and enhances the commercial viability of renewable portfolios operating in merchant markets.

Ripley: Where are investors finding opportunities today in the energy transition?

Qais: Well, uncertainty around Washington during the past year gave some investors pause, especially in the second half of the year, while market participants waited to see how the changes to federal incentives would go. Now that those parameters are clearer, we've seen conversations pick up.

Unsurprisingly, the recent slowdown created openings. Smaller and midsize developers without deep balance sheets can't always afford to push several projects forward at once, particularly when grid deposits and certain development costs must be paid up front. That left parts of their pipelines underfunded.

We are seeing cases of attractive pricing for those able to commit capital earlier in the lifecycle of an energy transition asset. These opportunities are emerging across the ecosystem, from renewable power generation to the transmission networks and storage needed to remove bottlenecks and bring new capacity online.

The political language around the sector is shifting. Clean energy is still associated with decarbonization, but increasingly it's discussed in more pragmatic terms: jobs, domestic manufacturing, grid reliability and local tax revenues. In a tighter power market, the debate is less about aspiration and more about keeping the lights on while keeping costs under control.

Ripley: What do you believe ultimately determines the outlook for energy transition infrastructure?

Qais: The more decisive factors may not be federal subsidy levels, but whether supply keeps pace with demand. EIA data already show tightening reserve margins in certain regional markets. Data center developers and industrial users are acutely sensitive to reliability and pricing. Any sustained power scarcity will carry economic costs that transcend political affiliation.

Setting aside politics and rhetoric, if U.S. electricity demand continues to expand as projected, then many types of new generation – and the infrastructure to connect it – will be required. In many regions of the U.S., renewables still represent the fastest and most cost-effective way to add that capacity. For infrastructure capital, that means the center of gravity is shifting from subsidies to fundamentals. Fundamentals, today, point to growth.

CORPORATE OVERVIEW

Schroders Capital is the global private markets arm of Schroders Group, the UK-listed global investment manager with $1 million in assets under management. Schroders Capital provides investors with access to a diversified range of investment strategies across private equity, private debt and credit alternatives, infrastructure, and real estate, with $112 billion under management as of Dec. 31, 2025.

Schroders Greencoat is the specialist energy transition infrastructure manager of Schroders Capital. Founded as Greencoat Capital in 2009, it is one of the most established and largest pure-play renewables and energy transition managers globally.

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