

ESG Essentials: What You Need To Know Now

Episode 15 – NYC Climate Week

Davis: Welcome to the latest episode of ESG Essentials: What You Need to Know Now." I will be your host today, Karen Davis, co-chair of Fox Rothschild's ESG Practice Group.

Fox's series of topical and timely podcasts cover core ESG concepts and explore important issues for businesses that are concerned with developing and deploying an ESG profile; with responding to increased scrutiny from regulators, investors or consumers regarding their environmental and social impact; and minimizing the potential legal, business and reputational risks that can be associated with ESG.

In today's episode, we are speaking with Rich Deming, the CEO of East Energy Renewables, and a speaker on the "Need for Speed" panel hosted by Fox Rothschild at the upcoming New York City Climate Week.

East Energy Renewables develops clean energy projects with a particular focus on bioenergy projects using waste resources. The company has experienced high growth during the last three years, and the passage of the Inflation Reduction Act, or IRA, has sped this process dramatically.

Rich has worked in the renewable energy space since 2004 in roles which include representing governments, procuring projects in public policy formulation and for the last decade, running a development team with significant success, installing large-scale biomass and solar projects.

Rich has been through the energy project due diligence process many, many, many times and has been excited to work with a group of technicians, policy experts and investors to study the best way to use new AI technology to make due diligence happen with less friction and to keep the pipeline of projects moving.

So Rich, welcome to the podcast and thanks for taking time to talk to us today.

Deming: Well, I'm glad to be here and thanks for the invitation.

Davis: So, New York City Climate Week is coming up. It'll be September 17th through the 24th. So, can you tell us a little bit about the event and why it's important?

Deming: Well, you know, as we kind of are reaching this critical point, sort of a tipping point, these kind of events get more and more important. There's been a lot of events over the last 10 and 20 years, and we seem to get closer and closer to solving it. At the same time, we get closer and closer to kind of falling off a cliff. And so, particularly events like this that focus a light on, you know, how we can work together to solve different things.

The Climate Week event particularly is interesting because it has good engagement with the UN and with UN events and UN activities, and so it's kind of a step above some of the other climate events around the world. And it's just, you know, it's over 400 different separate events, loosely affiliated and hosted by important stakeholders in the process.

And so it's almost kind of a Lollapalooza of this kind of thing.

Davis: Sounds great. And I understand you will be a panelist at a breakfast session on Tuesday, September 19, "The Need for Speed: Expediting Clean Energy Deployment with AI," or artificial intelligence. So, can you give us a preview of what the panel will discuss and provide some insight on this topic?

Deming: Sure. It's really kind of a compelling subject. There's a lot of different ways AI can be used and is being used in the development of clean energy. In our firm for instance, heck, we own power plants and analyzing the massive volume of data that is coming out of a power plant and to really drill down on how to increase performance is intriguing as heck.

But then if you move to the front end of the development cycle, how to locate a site that fits a set of parameters that you need. We used to just spend a lot of hours on Google Pro looking at sites and power lines and stuff. And at this point, a lot of that is automated and so that's super exciting for scaling a development pipeline.

And then finally, I think more of the focus of this panel will be on due diligence and some of the issues in due diligence. Because you hear about bottlenecks in the pipeline of clean energy related to permitting and related to environmental justice and other things. Sometimes you don't hear about just how tough it is to get a project, even a good project, through due diligence so that it can get financed and be built.

And then on the flip side of that is, there's not enough grounds to sort of throw out bad projects and so they bottleneck up the pipeline. And so what we're going to have a chat about is ways that AI might help clear that out. To just kind of quickly assess projects that are good or bad for developers for private equity, for insurers.

And so we've got quite a nice group there. And I'm the only developer and there are folks from the investment side and there are folks from the policy side, and kind of worldwide experts in AI. So it's going to be interesting.

Davis: I am looking forward to hearing that panel.

So, tell me a little bit about how the Inflation Reduction Act has affected East Energy Renewables. You mentioned that it's helped your company to grow, but can you tell us a little bit more about that? And also touch on some of the social issues or components that are embedded in the Inflation Reduction Act, like the requirements related to wage and apprenticeship requirements for clean energy tax credits?

Deming: Absolutely. So, you know, it's kind of a "don't get me started" on the IRA because I'll burn up the rest of our time. It's an amazing pivotal historic moment, I think, with the passage of that last year.

I have been messing around with renewable energy since 2004. And I say sometimes that was like performance art back then. Because it sort of looked like that's what a renewable energy project should be, but there was no business model for it. It was a lot of experimentation and pain and heartache. But it got better. But really what was happening over the last 15 years is every single project, you had to reinvent the world in which you were building this project. So, the tax credits were going to expire, which threw everything into confusion. It's very hard to get new technology and new concepts financed when everything is changing every year.

All of a sudden, in the middle of the night in March, they would pass the tax credit again and it would be retroactive and then you would theoretically be off to the races. But it was a chaotic way to do anything. And so when you start getting into projects \$30, \$40 million, it was just such pain to try to get that done.

Early on, a more experienced developer told me, "If you want to be a developer, you have to ask yourself if you're the type of person who will run face first into a brick wall every single day." And that was really what it was like.

Davis: Don't make it sound like a lot of fun.

Deming: Yeah. Yeah. There's a little bit of weirdness in the . . . I had a partner at one point call me "pathologically optimistic," and that's kind of what it takes.

And so by 2020 I was kind of ready to go. I'm in my fifties, and there's a generation of us that started this mid-career, early career, and by that time you're ready to kind of hang up the spurs and say, "I've done enough," just because the idea of spending the next five, six years getting one or two more projects done just wasn't appealing to me.

And the IRA, it's shocking how much change -- by giving us a 10-year runway with a stable system of incentives and a stable system of credits, which can be understood by all parties -- the transferability of tax credits is a shocking change. You don't have to do an incredibly inefficient flip structure with a credibly expensive transaction cost. You can just sell the tax credits and apply it to the CapEx. It's just a shocking change. And so suddenly, as long as you can hit your interconnection and your revenue and your site variables, you can scale.

And so, we're working on five projects instead of our next project. And we're also thinking through how do we add on hydrogen production because of the incentives there. It's just an amazing change.

The second portion of your question, which really relates to your ESG practice... it's interesting because I was a consultant to governments back during the American Reinvestment and Recovery Act. And it was interesting back then because there was a lot of verbiage about domestic content. There was verbiage about diversity and inclusion. But I can tell you, I think I worked on \$7 or \$8 million worth of those projects, all pretty small projects spread across small municipalities. And closing those out, I don't remember a single word being said or documentation exchanging hands on how domestic content actually worked or if anything actually included any sort of ESG-type considerations. It's entirely different at this point.

So the IRA has ... First of all, we're used to a 30% tax credit. If you don't have an apprenticeship program and hit labor numbers, hit wage levels, you're going to be at 6%. And so that's pretty drastic. And I'm not the tax guy or the numbers guy, so I could be slightly off, but by order of magnitude you're going to take an enormous haircut on your tax credit.

So, you have to have these apprenticeship programs in place. You have to have your labor wage levels in place to get back to 30%. And then if you use domestic content, you can get to 40%. And if you're in an energy community which has had a pollution event or has had a closed coal plant or something similar, you can get up to 50%. And so that's a shocking range there. If you do nothing but what you used to do, you're like somewhere around 6%, but you could be up to 50% if you do everything right.

Davis: Those are incredible incentives.

Deming: Yeah. It's an amazing change.

Now for skeptics who might be saying, "Wow, that's a lot of money to throw at this," keep in mind they made it really hard. And so, this apprenticeship program -- we set up one for our business. Because we don't construct the projects, we didn't need it, but I wanted to understand fully what it meant to have an apprenticeship program. And so, we had two folks in HR working on it for over six months. And the concept of an apprentice program is a very technical term that goes back to the New Deal. And it's federally governed and then often, you know, overseen at a federal level to the state level. And so, we work very closely with the North Carolina state government and in the community college system.

And I couldn't be prouder of this program now, I mean, because it's an incredible on-ramp for kids who come out of high school and maybe they don't have the resources to go to community college, but they have skills and they want to succeed. They can go into our program without any sort of basic experience. And four years later, you know, they can be eligible for a boiler operator or they'll have a boiler operator certification, which is a \$60, \$70,000 a year job. They'll have a community college certification, very close to a degree, that they can finish up if they'd like. And so that kind of thing is really powerful and really something to be proud of.

The domestic content stuff is shockingly hard. And it's not for the faint of heart because it is extremely hard and has to be certified by CPAs and/or legal opinion letters. You're going to be generating jobs in the United States, or you're just not going to get it.

And so that, and, you know, our next power plant, I changed where I wanted to put it. And I'm really happy with where I want to put it. But I picked a different community that had a coal plant, 120-megawatt coal plant, that shut down about four years ago. Pretty devastating to this community. And we've switched gears for our next project, and we've put that project to the top of the list because it's another 10% tax credit, which really makes it a lot easier to try to get done. But also feels good because it's a great community that is, you know, where you're well appreciated.

Davis: It sounds like it would do a lot for the community. You know, the community might have been impacted in terms of jobs when the coal plant shut down. So, it's great to see some economic development there.

Deming: Yeah, it's really compelling and interesting. By total coincidence, three or four of our guys in operations used to work at that plant, and so they've really got their fingers crossed that, you know, we'll get this project over the finish line and they can quit commuting so far.

But so, you know, it's a very human story of these guys that worked in this plant and worked in it for decades. The plant got shut down, they got laid off, and you know, now they're driving an hour 10 minutes to get to our plant and we could cause this reinvestment of \$40, \$50 million. First of all, increasing the tax base in a place that needs it, and then creating 20, 25 high paying green-collar jobs.

Davis: That is great.

Rich, thank you so much for sharing your industry insights. And for listeners who are interested in learning more about your session during the New York City Climate Week, there is information available on the Fox Rothschild website under "Events."

And for listeners who are interested in learning more about New York City Climate Week in general, that is available at their website, www.climateweeknyc.org.

Well, thanks again, Rich. I really appreciate your time and your insights, and I look forward to listening to your panel.

Deming: Well, thank you a lot Karen, and it's great to be on. And I'm a big fan of Fox Rothschild. I've worked with you guys a lot and so I'm really happy this came together in the way it did.

Davis: Okay, thank you.

Deming: Bye.