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ENERGY 11/09/2015 @ 3:16PM 4,418 views

Where To Invest In Energy Now

Energy stocks are probably undervalued right now due to an overcorrection from the fall of oil prices. The sell-off hit most all energy companies, not just the oil giants. The flawed logic is that lower oil prices will diminish not only oil profits but also growth in renewables, flawed since renewables typically compete with coal and gas and not oil, at least in the United States.

News last week of the rejection and the Keystone pipeline's federal permit application and the investigation of Exxon Mobil by the New York Attorney General, ahead of the upcoming Paris climate conference, will likely further dampen enthusiasm for big oil. It shouldn't. Oil will be with us for decades, like it or not, and now is probably a good point to buy in.

But whether you are inspired by the divestiture movement or just looking at the long-term, it is also a good time to think about how to invest in renewable energy. Not only because this sector is also currently undervalued, but because green is where the energy market is ultimately headed.

The question is where to invest? Technology picks winners and losers, while long-term investors tend to stick with the likely winners. What are the sure bets in this sector? Think electricity.

The driver of transformation in the energy sector is the reduction of carbon emissions from the burning of oil, coal and gas. The biggest use of oil is as a motor fuel and we are seeing the future already with the development of electric automobiles—think Tesla. Converting the world's fleets into electric vehicles is the first achievable major shift in the world pattern of energy consumption. No longer will there be countless sources of carbon fuel burners on the roads, but, rather, cars and trucks will be plugging into charging stations to refuel.

The problem with this transition is that a lot of the electricity in the world is currently generated by burning coal, so this may actually increase emissions—at first. But solving the power generation problem is more straightforward. Coal capacity can and, indeed, already is being converted to abundant natural gas, with much lower environmental impact. And distributed solar generation is starting to become a meaningful source of electricity, with several companies competing to develop improved battery storage systems.

In addition, centralized wind and solar generation stations are increasing efficiency and contributing a greater share of the energy mix. But these changes are incremental and the companies that are building electric cars, large scale battery storage cells, solar panels and wind turbines may or may not be the winners in the race to power the future. So what is the sure thing?

Electricity needs to move about on lines. However it is generated, power transmission will be a key to the green energy future. This is true even in the face of growing distributed generation, as excess distributed power will need to flow back into the grid to power excess demand elsewhere.

In a green energy future, with cars and trucks running on batteries, solar panels a standard element of all building construction, coal and gas power stations replaced with industrial scale solar, wind and other alternative sources, heating fueled by low-cost electricity, all energy will be electrical and the net winner will be the companies that own, control and service the grids. The power utilities will be among the biggest winners of the green energy marathon.

Power utilities have been taking a beating lately due to competition from distributed generation and stock prices are down on interest rate fears. But public service commissions, which historically fought the utilities to protect consumers, are increasingly seeing their role as protector of the utilities as part of the vital national infrastructure. To be sure, there will need to be major upgrades to make the grids “smart” -- capable of handling power flowing in different direction as various times. But the cost of these improvements will become part of the rate base so shareholders will be insulated from the costs.

Utilities were once thought of as the classic “widows and orphans” stock, a safe and reliable place to put long-term money. The concept remains valid, although the term of art is fancier: “infrastructure risk.” But not only can these stocks weather market conditions, they will, in my view, end up on top in the ultimate greening of energy.

My fund [Aquamarine Investment Partners](#) is a real asset fund and we do not invest in listed securities. I do not make any direct listed investments in my personal portfolio to avoid conflicts with our investors.



JOLIET, IL – MAY 07: Transmission lines carry electricity from NRG Energy's Joliet Station power plant on May 7, 2015 in Joliet, Illinois. According to scientists, global carbon dioxide (CO₂) concentrations have reached a new monthly record of 400 parts per million, levels that haven't been seen for about two million years. (Photo by Scott Olson/Getty Images)