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Private equity, like banks, pours money into fossil fuel companies

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It’s not just global banks doubling down on carbon-emitting fuels.

Private equity, an opaque corner of the financial industry that oversees more than $8 trillion in assets worldwide, also continues to sink dollars into companies that produce, distribute and market coal, oil and natural gas — a trend getting a boost from the craze for energy-hungry data centers to support artificial intelligence.

The top 21 private equity firms, including Blackstone and KKR, have invested roughly $1 trillion in fossil-fuel energy companies since 2010, creating greenhouse gas emissions equivalent to those of the entire aviation industry, according to a new study by Private Equity Climate Risks, a nonprofit consortium.

While some private equity firms have invested in clean energy — KRR, for example, in March acquired a majority stake in Avantus, a US-based developer of large utility-scale solar and solar-plus-storage projects — two-thirds of the energy companies in private equity portfolios are focused on oil fields, pipelines and liquefied natural gas terminals, the consortium found.

Its members are the nonprofit coalition Americans for Financial Reform Education Fund, non-governmental organization Global Energy Monitor and nonprofit Private Equity Stakeholder Project.

"Private equity asset managers have repeatedly acquired these fossil fuel assets and operated them out of the public eye and often beyond the oversight of financial and environmental regulators," the study, *2024 Private Equity Climate Risks Scorecard*, said.

Financial risk

Private equity funds take money from institutional investors, including pension funds, and wealthy individuals and family offices. Pension funds for teachers, firefighters and other public sector workers have invested hundreds of millions of dollars in the funds, yet are often in the dark about the funds' "enormous fossil fuel footprint," the group says. That exposes the investors to financial, social and political risks from climate change.

While banks and oil majors face shareholder pressure over their climate risks and emissions, "private equity firms continue to dodge the spotlight, pouring billions into fossil fuels and pushing us further from a sustainable future," said Alex Hurley of Global Energy Monitor.

The financial risk posed to fossil fuel companies resisting the transition to clean energy is growing. From 2012 to 2022, at least 60 US coal companies filed for bankruptcy. The methane gas, or "natural gas," industry faces projected demand declines in Europe and a global oversupply of liquefied natural gas.

The report studied 21 private equity firms that collectively manage $6 trillion worth of companies. It found firms' fossil fuel assets responsible for nearly 1.3 billion tons of greenhouse gas emissions a year from upstream oil and gas operations, liquefied natural gas terminals and coal-fired power plants.

That level of emissions is more than three times as much as the energy used to power all the homes in the US, and is on scale with the Canadian wildfires of 2023.

The list

Topping the *Scorecard* list is EIG Global Energy Partners of Washington, DC, which controls some $24 billion in assets. It got the worst grade, an 'F', with 82% of its energy portfolio made up of fossil fuel companies and an estimated 271.8 million tons of emissions that contribute to climate change.

At Blackstone, the world's largest private equity firm with $1 trillion under management, 85% of the giant's energy portfolio companies concentrate on fossil fuels.

The report singled out the firm's stake in the Gavin coal plant in Ohio. The previous owner of the facility, known as "America's deadliest coal plant" for its sulphuric acid plumes, bought out the entire town of more than 200 residents due to the health hazards and premature deaths.

"While we have not seen this report, we are one of the most significant investors in the energy transition globally," Blackstone spokesperson Mariel Seidman-Gati said when contacted by *ImpactAlpha*.

EIG and KKR didn't immediately respond to requests for comment.

Kohlberg Kravis Roberts & Co., or KKR, owns investments in 188 fossil fuel assets across 21 countries. The firm's holdings emitted nearly 103 million tons of CO_2 equivalent in 2023, a prior report by Private Equity Climate Risks found.

While no PE firms got an 'A', Apollo Global Management, EQT, MacQuarie and TPG managed 'B' scores.

Green shoots

Many private equity firms are investing in — and talking up — clean energy while also holding or profiting from the sale of fossil fuel investments. Carlyle Group is building a $2 billion,1.5-gigawatt solar-and-storage project outside of Phoenix. In June, it acquired a portfolio of oil and gas exploration and production assets in Italy, Egypt and Croatia.

In August, it sold Cogentrix, the Charlotte, NC-based owner and operator of 11 natural gas-fired power plants, to Quantum Capital Group for $3 billion. Banks have attracted more scrutiny for their financing of fossil fuels.

The world's largest banks extended $706 billion of oil, gas and coal finance in 2023, according to Rainforest Action Network's most recent *Banking on Climate Chaos* report.

Meanwhile, private equity firms have announced 47 investments in oil and gas companies this year through Aug. 20, according to S&P Global.

AI boom

Private equity accounts for up to 90% of all investment in data centers, according to Synergy Research Group. Those centers are largely used to train AI-driven large language models. Last month, Microsoft, BlackRock and a state-backed investor from the United Arab Emirates launched a $30 billion fund to invest in data center infrastructure to feed demand for AI applications. The trio hasn't said whether it will use clean energy.

Also last month, Microsoft announced a deal to restart Three Mile Island, whose partial meltdown in 1979 is the worst nuclear accident in US history, to provide energy for the tech giant's data centers.

Despite some of the renewable energy plays, acquiring fossil fuel assets "is a strategic move for private equity since AI datacenter infrastructure requires levels of energy that intermittent renewable power, such as weather-dependent solar and wind, cannot fulfill alone," S&P wrote in a recent research note.

Call to action

The *Scorecard* report called out private equity firms for understating their carbon footprints. For example, KKR's 2023 sustainability report cited just 14,342 metric tons of greenhouse gas emissions. The real impact is 6,500 times greater, the report researchers argue.

The group lays out five standards for climate action that it says private equity firms should adopt:

– Align with science-based climate targets to limit global warming to 1.5 degree Celsius

– Disclose fossil fuel exposure, emissions and impacts

– Report a portfolio-wide energy transition plan

– Integrate climate and environmental justice

– Provide transparency on political spending and climate lobbying