
EPISODE 248: DARPAN KAPADIA – THE NEED FOR POWER

Darpan Kapadia

There's a real, I think, concern that made it top of mind for policymakers around our ability to produce enough power to sustain our critical industries.

Female Voice

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Ken White

Welcome to Leadership & Business, the podcast that brings you the latest and best thinking from today's business leaders from across the world. Sharing strategies, information, and insight that help you become a more effective leader, communicator, and professional. I'm your host, Ken White. Thanks for listening. Data centers, artificial intelligence, and manufacturing facilities require power to operate, and demand for power is growing considerably. Some wonder if the US will have the power necessary to fill its needs in the future. While the demand is causing increased and new competition in the energy space, one organization has been solving complex energy problems since 1990. LS Power is part investment firm and part power company. Darpen Kapadia is its Chief Operating Officer. Kapadia visited William & Mary to speak to students at the annual Convocation Cemetery. Before that, he met with MBA students, then sat down with us to discuss renewable energy, the growing need for power, and what policymakers and others are doing to ensure future needs are met. Here's our conversation with Darpen Kapadia.

Ken White

Well, Darpen, thanks so very much for sitting down with us. You just talked to some students. How was that experience?

Darpan Kapadia

It was great. It was great. That is not a shy group. I'll tell you that the questions were fast and furious, but they were thoughtful. Not surprised. It is the reputation of the place.

Ken White

It was fun to sit in and listen. And thank you for doing that. Thank you for joining us. And while we get started, why don't you, if you would, explain how you got involved in the energy sector and then LS Power?

Darpan Kapadia

Sure. Look, for me, it was a natural evolution of things. I graduated from William & Mary, undergrad in 1995 as an Econ major, went to work at Price Waterhouse for a few years in one of their evaluation consulting groups, which was a great first job, learned a lot about business, learned a lot about finance, decided to go back to school to drill down even deeper in the finance side of it. Got my graduate degree at Northwestern Kellogg. Then, from there, I went to work at Goldman Sachs in their investment management division to go deeper into finance. It was really through that experience that I got introduced to the firm I'm currently at, LS Power. Actually, LS Power was my first job in the energy business, and that was in 2004. I've been there ever since.

Ken White

They were a client of yours.

Darpan Kapadia

They were a client of mine.

Ken White

There's a great lesson there, right?

Darpan Kapadia

Yeah, that's right. Always be nice to your client.

Ken White

Yeah, right. So they saw something, and you saw something.

Darpan Kapadia

Exactly. I feel like that's the whole game: to find people you respect, you admire, and that you want to work with. For me, the energy industry was actually secondary. What was primary were the people and the culture and the values of that organization that I saw myself becoming a part of.

Ken White

How long was LS around when you joined?

Darpan Kapadia

The firm was started back in 1990. It had already been around for about 13, 14 years, but it was going through a transition. The firm was started in 1990 as a power plant development company. It was in the business of developing, building, owning, and operating utility-scale generation projects in the US. It was very good at that. During the '90s, it built around 5,000 megawatts of generation. Back then, it was enough to power around 4 million single-family homes. So it built a pretty sizable power company. It was an independent power producer. That was during a phase of deregulation when there was lots of opportunities for independents to come in and compete with utilities. And it did that well. In the late '90s, early 2000s, the sector was going through a bit of a boom, maybe in an exuberant way. There was a lot of generation capacity getting built. There was a lot of excitement around the Internet and phones, sucking all the power out of the grid. It rhymes a little bit with what we hear today. And into that environment, LS Power decided to monetize its fleet because it was worried about a potential overbuild. Turned out to be right, monetized its fleet in late '99, and then again in early '01, middle of '01, and Ron goes bankrupt, Calpine goes bankrupt, NRG goes bankrupt, and so on. And so it was in an interesting position because it had sold its assets, kept its people. Back then, it was around 25, 30 people, mostly power development type folks. I got to know the firm around that time. In 2004, I decided to come over and really work with the company for its next stage of evolution and help to evolve the business to more of an investment management firm.

Ken White

You were telling the students there's some real strategic advantages that the organization has. What are those?

Darpan Kapadia

Yeah, I think so because we're a bit of a hybrid, if you will. We're a one-part investment firm, another part a power company, all put together. So today, we have around 450 people. And if you look at our organization, it's roughly split that way. So we're very deep in the finance and investment management side, but we're also a power company. So we have an operations group, engineering, a development team, environmental compliance, energy management. So we have the power company piece. We bring it all together. And I think that's a competitive advantage in the marketplace. It allows us to be, I think, a preferred counterparty from an M&A point of view as we're looking for things to buy. Counterparties know that we can analyze the assets, the power markets, and execute with conviction, not be scared with something we're going to come across. Then I think it also helps position us the right way with policymakers, stakeholders, communities, because they don't view us as a New York City financial firm coming in. We're a well-experienced operator-owner of these projects. I think it all comes together.

Ken White

Renewable energy: How do you define it?

Darpan Kapadia

We've been in the renewable energy business for years. The exposure that we've invested in, that I would say is categorized by that, cuts across utility scale, solar, wind, hydro, both run of river, pump storage, hydro, battery storage. I would argue you should also expand that definition to capture Things like demand response, energy efficiency. It's services that actually modulate demand as opposed to create supply. There are two ways to bring supply and demand together. We have experience across all of that, really starting in the 2007- 2008 time frame. We were one of the early movers in renewables as well.

Ken White

You mentioned maybe late '90s, early 2000s, a real growth period. Is this time similar to that?

Darpan Kapadia

This time is similar to that, but I think it's actually more real than what you saw before. For the last, I would say since that time, for the last 20 to 25 years, you've seen very little demand growth for power in the US. Historically, demand had been highly correlated with GDP growth. That started to break down as the economy became less manufacturing-oriented, more services-oriented. And then you started layering on energy efficiency. For the last couple of decades, power demand in the US, depending on the region, had been growing at zero to a half a % a year. The business had really been about grabbing market share. Actually, it was a good environment for us to scale because we were scrappy operators, and you needed to be able to behave that way in order to compete because demand wasn't going to bail you out. You had to be a very value-oriented investor. You had to be a good operator, and you're fighting for market share. When you look at this evolution of the supply mix in the US over the last couple of decades, it's really been renewables and gas taking share from coal. That's what's been going on. Over the last couple of years, that started to change. You're seeing real fundamental demand growth coming from data centers and AI, number one. Number two, reshoring a manufacturer or just growth of manufacturing. Three, the gradual electrification of parts of our economy, like transportation, for example, but also home heating and cooling, and alike. That's creating real demand. I think the expectations around that are pretty significant, particularly coming from the AI and the data center side. The ranges out there are pretty broad. Some will say 3% to 8% a year, depending on the region you're in. I think it's safe to assume one and a half to say two and a half or three %, depending on the region you're in, just to be conservative. But that's really coming through. And so demand is growing, and it does feel like, at least for the next five, six years, it should be very sustainable. And that's a new thing for our industry. It's

a new thing for investors. It's a new thing for operators, for utilities, regulators, policymakers. And so what you're seeing in the marketplace is really all these groups trying to adapt to that new environment. And it comes with its own challenges.

Ken White

You mentioned policy. You spend time with policymakers. Is that state level, federal level, both?

Darpan Kapadia

You really got to cut across it all. We spend time. We have a team that focuses on it, but I also will spend time personally with policymakers at the state and at the federal level. We also spend a lot of time with regulators and the like. I think part of the nature of this business is you need to stay close to all of your stakeholders because policy does matter, it impacts incentives, and they can change. I think for us as investors, we need to make sure we're making investments that are driven by the fundamentals, knowing that policy can change from time to time.

Ken White

We'll continue our discussion with Darpan Kapadia in just a minute. Our podcast is brought to you by the William & Mary School of Business. When it comes to choosing an MBA program, there's much to consider. The curriculum, fit, cost, rankings, quality, and the time it takes to earn your MBA. If you're thinking about pursuing an MBA, check out the William & Mary MBA. It checks all the boxes and indicators of quality, like a world-class faculty, unparalleled student support, and a brand that's highly respected. The William & Mary MBA. Reach out to our admissions team to learn which of our four MBA programs best fits you: the full-time, the part-time, the online, and the executive MBA. Check out the MBA program at William & Mary at wm.edu. Now, back to our conversation with Darpan Kapadia.

Ken White

Are there any particular questions you hear often from policymakers? Is there something on their minds that you're ready for when you go in?

Darpan Kapadia

Right now, it's about how are we're not going to supply all the power we need. There's a real, I think, concern that made it top of mind for policymakers around our ability to produce enough power to sustain our critical industries, particularly at the federal level. That's where you're going to see it. This administration is very focused on, as it should be, winning the AI race. In order to do that, we need to make sure we produce enough power to support our work in AI. I think supply and availability of that is a real policy concern. As you get to the more local level, there's more of a focus on not just supply, but also rates, costs for customers. And how will that evolve over time? Those two things

obviously go hand in hand. I think it's good that policymakers are focused on these issues, but it is a problem that needs to be solved.

Ken White

More competition in recent years?

Darpan Kapadia

I would say it's increasing. I would say it's increasing because of the demand story that has emerged. If you just look at it from a pure financial capital perspective, I think there are more pockets of capital that are interested in deploying its resources into the US power system because they see the need. I think there's more competition, but there's also more opportunity. I'd rather have more opportunity than less.

Ken White

What's the future hold? What do you think, say, the next five years looks like?

Darpan Kapadia

I think the next five years, from a macro perspective, feels pretty clear to me that you'll see this continued growth in demand, and supply will have a challenge keeping up. Because all the demand is growing, it's not getting any easier to build large infrastructure projects here in the US. There's a few pieces to that. One is the development cycle is still long. It takes a while to get all the permits and approvals, and very easy for opposition groups and nimbyism to take over and slow things down. So you have development challenges. But I think what's emerged as a newer constraint is what's happening on the cost side and supply chain side. To give you a data point, I would say it probably cost twice as much today to build a natural gas-fired combined cycle that runs based on it all the time, twice as much today than it did just five years ago, and maybe a little less than three times than it did, maybe, let's say, 11, 12 years ago. You've seen significant cost inflation around equipment, labor, Interest rates are not zero anymore. So real cost, inflation there. But it's also it takes longer to get the key equipment. You always need to remind yourself we're not the only country going through this growth dynamic. There's demand growing throughout the world. And so there's a lot of demand for things like gas turbines and the like. If you want to build something from scratch today, you got to get in a line to get that equipment. And you may not be energized till 2031, 2032 on the gas side. And on the renewable side, you're seeing policy headwinds. And so when you put all that together, it tells me that supply and demand is going to get tight, stay tight, get tighter over the next five years or so. That's something you could feel fairly confident about when deploying capital, making investments, making decisions.

Ken White

COO, what is your role? What do you do?

Darpan Kapadia

I work really across the platform. We have a few different businesses. We have our private equity business, where we're in the business of raising capital and deploying it through our flagship funds, about 13 billion under management. We're investing our fifth fund right now. We have a transmission company that we started back in 2006 called LS Power Grid. And through that business, we are developing, owning, and operating high-voltage transmission lines throughout the US. We have around 6 billion in operating or awarded rate base there. Then third is we have a generation development company where we're doing green field building of projects. That's the platform. As the COO of the business, I work across those three businesses with the leadership team, serve on investment committees, and the management committees. I also spend a lot of time with key stakeholders, whether it's our investors or policymakers.

Ken White

Any advice to someone who would like to do what you do, whether they have a great career going now or they're looking forward to a career?

Darpan Kapadia

Yeah, look, as I was mentioning to the class right before this, if I could rewind the clock, I would have taken more organizational behavior classes when I was in business school or even undergrad, if it was available to me. Because as you become more senior in your career, you learn that even though we're in the business of operating machines, to a large part. Ultimately, it's the talent and the people that make it all come together. Being able to put those teams together, motivate them, manage them is so critical to getting it all to work. I would say for those upcoming, up and coming in their careers or still in school studying, making sure you're really paying attention to sharpening those skills. The financial analytical capabilities, those will come over time. I would argue with AI and the like that capability probably gets a little more commoditized over time. I think ultimately, what you need to demonstrate as a leader is judgment, problem-solving skills, empathy, and the like, because that's what allows you to motivate your team.

Ken White

That's our conversation with Darpen Kapadia, and that's it for this episode of Leadership & Business. Our podcast is brought to you by the William & Mary School of Business, home of the MBA program offered in four formats: the full-time, the part-time, the online, and the executive MBA. Check out the William & Mary MBA program at wm.edu. Thanks to our guest, Darpen Kapadia, and thanks to you for joining us. I'm Ken White, wishing you a safe, happy, and productive week ahead.

Female Voice

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