BSP
BENEFIT STREET PARTNERS
by Franklin Templeton

Energy Security vs. Energy Transition:
Why Net Zero Can Support Security

Recent years have shown that the path to net zero will not be linear. Geopolitical conflict, supply disruption and energy price volatility have all prompted "security first" responses when affordability or reliability comes under pressure. While this can make energy security and transition appear to be competing priorities, Benefit Street Partners Limited ("BSP Ltd") views that tension as largely short term. Over time, reducing dependence on imported and volatile fossil fuels should itself strengthen resilience. In this sense, progress toward net zero is increasingly part of how energy security is achieved.

The short-term trade-offs are real, energy shocks can affect borrowers quickly by compressing margins, increasing working capital needs and exposing weaknesses in procurement, efficiency or hedging. Policy responses can also be abrupt, from subsidies and price caps to support for conventional energy infrastructure. BSP Ltd's climate scenario analysis reflects this non-linearity: in a disorderly transition, fossil fuels decline more slowly, renewable deployment lags and prices remain higher for longer. This highlights that transition is not only about ambition, but also about sequencing, buildability and system readiness.

BSP Ltd believes the more relevant question is not energy security versus transition, but how transition can be delivered in a way that improves security over time. A resilient lower-carbon system depends not only on renewable generation, but also on electrification, grid investment, storage and energy efficiency. From a credit perspective, these factors matter because they shape how exposed businesses remain to external energy shocks. Companies that reduce energy intensity, diversify energy sources and strengthen operational resilience may be better placed for both decarbonisation and a more volatile geopolitical environment.

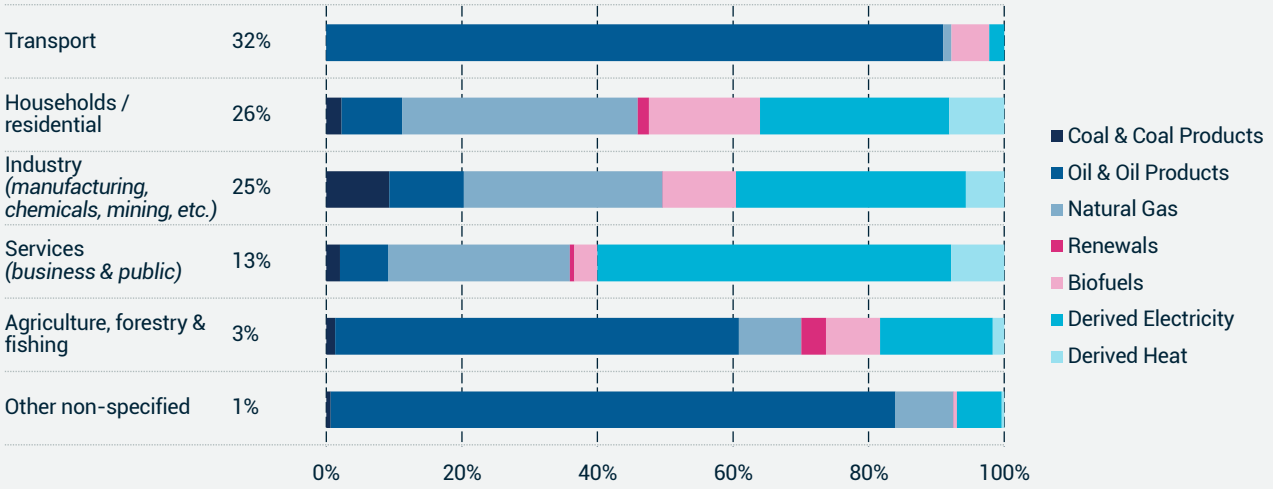
Conventional fuels, and gas in particular, may remain part of the energy mix in certain sectors and geographies for some time. The key question for lenders is whether this reliance is temporary and consistent with a credible transition path, or whether it creates longer-term exposure to volatility and policy change. BSP Ltd therefore assesses energy security and transition at issuer level, including how companies' source and manage energy and their vulnerability to fuel and power cost disruption, including oil price spikes.

Ultimately, BSP Ltd does not view energy security and net zero as mutually exclusive. While the transition may involve periods of tension and continued reliance on conventional energy, the long-term direction is clear: businesses that are more energy efficient, less dependent on volatile fossil fuel inputs and better prepared for a changing energy system should be more resilient credit propositions. For BSP Ltd, energy security is therefore not only a macro theme, but an issuer-level underwriting consideration.

EU-27 Energy Mix: Primary Supply and Final Consumption by Eurostat / IEA Sectors (as of YE23)

	SEGMENT / SECTOR	SHARE	SUPPLY MIX / FINAL CONSUMPTION MIX
Primary energy supply	EU-27 total	**100%**	Oil **38%**; Natural gas **20%**; Renewables & biofuels **20%;** Nuclear **12%**; Coal **9%**; Other **~1%**

Final energy consumption by Eurostat sectors



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