2021 Energy Infrastructure Council Conference Recap: Talking energy transition and more

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Summary

- While renewable energy capacity is expected to grow significantly in the coming decades, it also faces massive challenges for widespread adoption.
- With the growing pressure to decarbonize, midstream companies provide a backbone for carbon capture and hydrogen to provide viable solutions in the future, particularly for hard-to-abate sectors critical to the economy.
- Building on the constructive tone set in 1Q21, midstream outlooks remain upbeat on expectations of an improving commodity environment in 2022, with some companies also providing color around short-term and long-term opportunities from the energy transition.

Last week we virtually attended the Energy Infrastructure Council (EIC) Investor Conference in Las Vegas. We heard from a wide range of industry stakeholders, from lawyers to analysts to key members from traditional and renewable infrastructure companies. This year's conference largely emphasized ESG trends and provided insight into the regulatory, political, and macro issues affecting the energy infrastructure space. While the main topic of discussion was the energy transition and its impact on energy infrastructure, attending midstream companies also provided additional color around their outlooks, among providing other updates.

Midstream outlook holds positive.

Building on the constructive tone set by the "beat and raise" quarter in 1Q21, attending midstream management teams provided largely upbeat commentary around the demand outlook on expectations of an improving commodity environment in 2022. Companies highlighted expectations for more robust volume growth in 2022 and alluded to favorable operating leverage and steady capital spending levels. Capital allocation was also largely topical, while management teams indicated distribution growth remains an option, share buybacks seemed the preferred payout in the short term, with most emphasizing the option for opportunistic buybacks in 2021. Inflation also came up in several discussions, with most management teams seeing some cost pressures but no significant impacts, and a handful of management teams alluding to contract protections as further insulation from inflation. Regarding developments around the energy transition, management teams highlighted short term opportunities around gas capture, renewable fuels, as well as the evaluation of longer-term opportunities from hydrogen and carbon capture.

The energy transition poses a challenging path.

Among the discussions, panelists emphasized the difficulties of the energy transition and the myriad of challenges for renewable energy, alluding that carbon capture and hydrogen could provide solutions to decarbonize that could also help ensure energy security throughout the energy transition. To put some of the challenges for renewable energy into context, The International Energy Agency (IEA) issued a report last week laying out a pathway for global net zero emissions by 2050 that would require annual additions of solar and wind capacity through 2030 four times the record amounts added in 2020. In addition, the market size for critical minerals like copper, cobalt, manganese, and other rare earth metals would need to grow seven-fold to 2030. While the IEA's scenario incorporates halting fossil fuel exploration and spending on new projects—an area that got much attention—it also notes that traditional oil and gas companies fit well with opportunities around carbon capture, hydrogen, and offshore wind, and emphasizes the need for new pipelines to transport captured carbon dioxide (CO_2) and systems to move hydrogen. Nonetheless, the IEA's report provides a sobering reality check to the magnitude of challenges the energy transition poses for societies, economies, and governments.

Existing energy Infrastructure provides a backbone to cleaner energy.

Panelists emphasized the growing pressure to decarbonize and alluded to carbon capture and hydrogen leveraging existing energy infrastructure to provide viable solutions, particularly for hard-to-abate sectors critical to the economy. For example, blue hydrogen, which is produced from natural gas and combined with carbon capture technology, could provide low-carbon solutions for heavy road freight, shipping, aviation, chemicals, cement, and steel. Hydrogen could be quietly emerging as a critical component of the world's renewable energy mix given its flexibility to alternate between low-carbon (blue hydrogen) and carbon neutral (green hydrogen). Numerous countries around the world have adopted hydrogen strategies since 2020. Furthermore, while some might underappreciate the role traditional energy companies play in addressing emissions and providing solutions, many of them have taken proactive roles—as discussed in prior research (read more here). For example, ExxonMobil (XOM) and Chevron (CVX) both confirmed their commitments to deploy large scale carbon capture projects during their first quarter calls of 2021. While existing infrastructure would likely require upgrades and additions to efficiently move hydrogen and CO2 at scale, it provides a backbone that could be crucial for reaching net zero emission goals.

Bottom Line:

With growing pressure to decarbonize, carbon capture and hydrogen could provide viable solutions in the future, particularly for hard-to-abate sectors critical to the economy. Midstream companies provide the backbone to facilitate the use of cleaner energy and are likely to benefit from short and long-term clean energy opportunities as progress is made around renewable fuels, carbon capture, and hydrogen.

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