Net-zero commitments in oil and gas

November roundup

Hello everyone,

Let's get straight to it. The big news this month is undoubtedly Shell's announcement that it's moving its tax base from the Netherlands to the UK. The main impetus for the move is to simplify its rather convoluted corporate structure to prepare itself for the difficult decisions around the corner. All sounds rather cryptic I know, but I'll explain later.

Most of us might be winding down for the end of year celebrations, but energy prices clearly didn't get the memo. Their upward surge continues and the oil majors stand to profit immensely. Somewhat counter intuitively, this could be the best time to double down on their transition commitments. Again, all will be revealed.

This newsletter was created to track investments the oil majors make in clean energy, mostly renewables. Over the past year, one area has really stood out - floating wind. It is still a nascent sector but has the wind in its sails rotors and is attracting serious attention from oil majors. Here I take a closer look at what they're doing.

Now for some sad news - this will be the last edition of the newsletter in 2021. I think we all deserve a well-earned break but I'll be back with a bang in January!

For those celebrating, I'd like to wish you an early Merry Christmas and a Happy New Year.

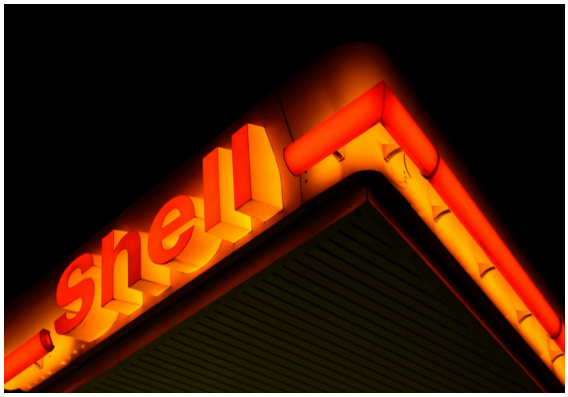
As always, if you know someone who'd be interested in this newsletter, please forward it on to them. The sign up link is here.

Cheers,
Micky

Stat of the month:

USD 6 billion

The amount by which Shell could increase its quarterly dividend after relocating its tax base to the UK.



Decarbonisation strategies

Shell signals the end of an era. The Anglo-Dutch giant's had a busy month. For the first time, it announced absolute emissions reduction targets for its scope 1 and 2 emissions - it intends to cut both by 50% by 2030. Till now, Shell has framed its emissions cuts exclusively in terms of intensity, so this is a welcome step, even if it excludes scope 3 emissions, which account for 91% of its emissions footprint. Slow progress, but progress nonetheless.

The major has also been targeted by an activist investor. Third Point called for it to be split into separate divisions so that it can pursue a more coherent energy transition strategy. But this is not an ExxonMobil moment - Third Point's demands were not taken particularly seriously. They have, however, started a debate, one which suggests investors will increasingly hold oil majors' feet to the fire if they don't stick to their commitments.

In any other month, all this would be big news. But it's been overshadowed by the bombshell announcement that the company plans to shift its tax residence from the Netherlands to the UK. Understandably, there has been some speculation that its surprise legal defeat in a Dutch court is behind the move. The optics may not look good, but in reality efforts to simplify the company's corporate structure are probably the real reason.

Shell has a very peculiar corporate structure, even for a sprawling oil supermajor. Since 2005, it has been incorporated in the UK, but has dual class shares and a Dutch tax residency. Under Dutch law, its shares listed in Amsterdam are subject to 15% withholding tax, while the UK government levies no such tax on its shares listed in London. Additionally, buybacks of its UK shares are capped by regulators at 25% of the average daily volume. By shifting its tax residence to the UK, Shell is increasing the number of shares it trades on the London Stock Exchange (the current split is 35% Amsterdam/65% London), thus increasing the average volume of trading. As a result, this 25% cap applies to a higher volume of share trading, meaning it can buy back a greater value of shares while circumventing the Dutch tax. Share buybacks could end up increasing to USD 6 billion a quarter.

Rightly or wrongly, Shell wants to increase share buybacks to appease its investors by returning more cash to them. And as evidenced by Third Point's activist intervention

and others like it, Shell needs to keep them on side. Investors will vote on the special resolution on December 10th.

There are, of course, other factors to consider. Brexit played a role by making it difficult for a company listed both inside and outside the EU to operate. Additionally, Shell has increasingly perceived the Netherlands as being a hostile operating environment. The final nail in the coffin was probably the decision of the Dutch pension fund ABP, a long-time partner, to divest entirely from fossil fuels. And yes, the court case certainly didn't help.

Exxon continues to take action, of sorts, on climate. The American oil giant has done two things of note this month. First, it has increased the amount of money it will put into low carbon energy fourfold - the company will invest USD 15 billion in total between now and 2027. All too predictably for Exxon, its focus will be on carbon capture and storage (CCS), biofuels, hydrogen and (obviously) government lobbying.

Second, it has increased its emission reduction pledges. It is now targeting up to a 30% cut (from 20%) in the emissions intensity of its scope 1 and 2 emissions by 2030. The complete exclusion of scope 3 emissions, which accounted for 85% of Exxon's emissions in 2020, limits the impact this will have. These new targets would have been considered industry-leading five years ago, but now they lag well behind its peers, a clear sign of the progress made in emissions reduction targets.

"Injecting more money into clean energy will not only protect their long-term interests, but improve their images as well"

The ongoing energy crisis could allow oil majors to pursue more credible action. The record earnings that the oil majors are posting on the back of surging energy prices offers them a unique opportunity to put their money where their mouth is. Surely, if a company like BP, which claims to be a leader in decarbonisation, is making all this money from inflated energy prices, it could increase its planned spending on its transition strategy?

Yet instead this money is going right back to shareholders. BP has stressed that it will return USD 1 billion a quarter to shareholders if oil prices remain over USD 60. Though they've fallen back recently, they're still well over USD 60 at the time of writing. In one respect, this is understandable. Oil majors want to reward and appease shareholders for sticking with them during a rough decade. Over the next few years, these companies will be making a host of difficult decisions and they'll need investors on their side. Nevertheless, share buybacks are only an ancillary part of a transition strategy and they cannot come at the expense of action. Injecting more money into clean energy will not only protect their long-term interests, but improve their images as well.

In transitioning to clean energy, the oil majors will also find that raising capital becomes much cheaper. While the cost of capital for renewables has fallen to at or below 5%, for

offshore oil and liquefied natural gas (LNG) it has more than doubled over the past decade, to 22% and 12% respectively.

Clean energy investments

TotalEnergies moves aggressively into emerging markets. It recently inked an agreement with the Ministry of Energy in Kazakhstan to construct a 1 GW wind facility paired with 500 MW/1 GWh of energy storage - the largest renewables-hybrid project to date in the country. Total also signed a deal to construct 500 MW of solar projects in Libya to supply electricity both to the grid and to industrial facilities in the Waha oil field, and purchased a 74 MW solar facility in Battambang, Northwest Cambodia. In September, it signed a 1 GW solar project in Iraq.

Equinor pulls an Irish exit. The Norwegian oil major has pulled out of a USD 2.3 billion, 1.4 GW offshore wind project off the Irish coast called Green Atlantic at Moneypoint. The project is meant to replace Ireland's only coal-fired power station, and Equinor would have developed it in collaboration with Irish utility ESB. Equinor was dissatisfied with the slow development of a regulatory regime for offshore wind projects in Ireland, according to reports. Though undoubtedly a setback, Equinor's departure does not leave the Moneypoint project dead in the water. The search for a new partner for ESB has already begun.

BP throws its weight behind long-duration energy storage. The British oil major joined Breakthrough Energy Ventures (Bill Gates' impact investment fund), Siemens Energy and others to launch the Long Duration Energy Storage Council (LDES Council) at COP26. Beyond existing battery technologies that offer several hours of energy storage, long-duration storage technologies could potentially store energy for days, weeks or even months. It will therefore be a critical technology in the energy transition. The group will target the deployment of between 85 TWh and 140 TWh of long-duration storage by 2040, which could need up to USD 3 trillion in investment.

Solar will continue to be key to the growth of BP's clean energy business. It has placed orders for a combined 5.4 GW of solar modules, spread over several years, from First Solar - the company's largest order to date. This represents a 50% increase on the 3.6 GW of renewable capacity BP had installed or on which it had reached financial close by the end of the third quarter of 2021.

Shell aims to spur innovation. The company has launched a USD 1.4 billion fund dedicated to helping start-ups focused on the energy transition to scale up. The money

will be channelled through Shell Ventures, which the oil giant established in 1996 to help fund companies in the oil and gas industry. The fund will target companies in renewables, mobility, transport and carbon capture. It is also by far the largest such fund, according to BNEF. By comparison, Chevron launched a USD 300 million fund in February this year.

The funding committed to this facility is already equal to the annual investments Shell had earmarked for low carbon energy in earlier strategy documents, suggesting that the oil major will step up its spending.

Meanwhile, in partnership with Australia's Infrastructure Capital Group (ICG), Shell bought Meridian Energy's operations in Australia for USD 573 million. ICG will acquire its two wind farms, while Shell would take control of the electricity and gas retailer, Powershop Australia. This adds 185,000 households and small businesses to Shell's power retail clientele. Upon hearing news of the acquisition, some customers actually abandoned Powershop. Powershop is the fifth retailer that Shell has purchased since 2017, and its second in Australia. In total, Shell has added over 1.2 million retail customers in 2021 alone, BNEF calculates. By 2030, it wants to provide electricity to 50 million households.

Eni buys more of Dogger Bank. The Italian major has purchased yet another chunk of the world's largest offshore wind farm, Dogger Bank. In December 2020, it bought a 20% in the Dogger Bank A and B wind farms, with a combined capacity of 2.4 GW. Now, it has added a 20% stake in the 1.2 GW Dogger Bank C wind farm to its portfolio. For this final acquisition, Equinor and SSE Renewables each sold a 10% stake to Eni for USD 95.5 million.

Sector in the spotlight: Floating wind

Regular readers of this newsletter will no doubt be aware of the sheer number of floating offshore wind deals that the oil majors have struck this year. As a sector, it does not attract the lion's share of investment, but it is a key pillar of the oil majors' expansion plans into clean energy, given that it allows them to leverage their existing technical expertise in offshore construction.

Equinor's head of floating wind believes the sector will take off in 2022. Indeed the coming decade will see the market surge a dramatic 37,000%, from 17 MW to over 6.3 GW, the Global Wind Energy Council forecasts. Opportunities abound and the oil majors believe they can bring their unique skill set to bear.

Market	Major(s) involved	Development

Norway

- Iberdrola and TotalEnergies will bid under a consortium for a total capacity of 4.5 GW of offshore wind in southern Norway. This will be for both floating and bottom-fixed offshore wind projects.

South Korea

- Equinor has signed a memorandum of understanding with Korea East-West Power (EWP) to build an additional 3 GW of floating offshore wind projects in South Korea. Equinor is already part of a 800 MW offshore wind project off the coast of Ulsan.
- Shell and CoensHexicon's Korean joint venture, MunmuBaram, has secured regulatory approval for the first phase of its floating offshore wind project in Ulsan. It has now been granted the rights to develop 420 MW of the 1.3 GW it wants to deploy.

Japan

- Shell and Equinor have joined several European and Japanese companies in setting up the Floating Offshore Wind Group to promote the development of floating wind in Japan. The group has called on the Japanese government to set a 2-3 GW capacity target by 2030.

Ireland

- Shell has acquired a 51% stake in Simply Blue Group's Western Star project. The two will aim to build 1.35 GW. Western Star will be broken down into two stages of development, the first between 300 MW and 450 MW and the second between 700 MW and 900 MW.

Hydrogen

Industrial alliances hope to leverage hydrogen to drive decarbonisation. Shell has recently partnered with Norsk Hydro, a Norwegian aluminium and renewables company, to develop green hydrogen hubs to decarbonise their own operations. Similarly, it has struck up a partnership with RWE to develop both green and blue hydrogen projects in the UK, Germany and the Netherlands. TotalEnergies has forged an alliance with Daimler Truck to develop the infrastructure for hydrogen-fuelled heavy-duty trucks in Europe. The French major aims to preside over 150 hydrogen refuelling stations by 2030 in the Benelux and Germany.

These alliances are likely to revolve around a small number of key hydrogen hubs, such as Teesside and Humberside in the UK, the Port of Rotterdam in the Netherlands, and a cluster of offshore wind-to-hydrogen facilities in the North Sea (NorthH2 and Aqua Ventus). In the UK, BP is playing a leading role. It plans to launch a 60 MW green hydrogen project in Teesside in 2023, which will be scalable to 500 MW by 2030.

These hubs will not be limited to green hydrogen. The oil and gas industry spent about USD 1 billion on both hydrogen and CCS technologies in the first half of 2021, BNEF estimates, with Shell, Equinor and BP the biggest investors. This indicates that blue hydrogen, derived from natural gas, will play a role in the hydrogen strategies of the oil majors. The role that blue hydrogen might play in reducing emissions is the source of much debate and controversy. One study found that its emissions footprint could be 20% greater than just using natural gas, owing to a high degree of fugitive methane emissions. Some argue it could play a role in the clean energy transition if methane emissions are significantly reduced. The feasibility of blue hydrogen therefore depends on how the oil majors tackle their methane emissions, which is no trivial task.

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In order to help gauge how oil and gas companies are positioning themselves in the energy transition, this newsletter specifically focuses on how they are moving into renewables and clean energy. To offer up-to-date analysis, it uses insight from media sources and subscription-based databases, like Bloomberg and Rystad Energy.

Feel free to forward this newsletter on to colleagues!

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