
Net-zero commitments in oil and gas

July roundup

Hi everyone,

A shorter newsletter from me this week - partially because I'm going on holiday but mostly because it's been a relatively quiet month.

We all know that energy prices have been off the charts and that the companies supplying the energy (the oil majors) are swimming in cash. But I did notice that the discussion on what to do with all that money is starting to change. Read on to find out how.

Clean energy deals this month have been smaller than usual, but nonetheless interesting. With Equinor moving into batteries and Shell looking to expand into the Philippines, their ambitions on this front are growing.

And, of course, we've got some newsworthy hydrogen deals (lucky us!), this time from Shell.

Don't forget to subscribe to the newsletter if you're a first time reader and you found it interesting. If you'd like to reach out with questions or feedback, don't hesitate to drop me a line. I'll be away for a bit, but I'll respond as soon as I get back.

Cheers,
Micky

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Stat of the month:

USD 50 billion

The collective profits that Exxon, Shell, TotalEnergies, Chevron and BP are expected to record in Q2 2022.



Decarbonisation strategies

Oil prices will stay higher for longer

Tight supply will mean that oil prices remain **high** for the foreseeable future, according to Chevron's CEO Michael Wirth. High prices mean the oil majors will perform well financially - analysts **expect** their second quarter profits to hit a record USD 50 billion. This is more than in 2008, when oil prices exceeded USD 140 a barrel. Reflecting this buoyant sentiment, Shell has already **increased** the value of its oil and gas assets by USD 4.5 billion, reversing its decision to lower the value of its assets following the precipitous drop in oil prices in 2020. The British oil major also **assumes** that the price for Brent Crude will average USD 80 a barrel in 2023.

Basically, what all of this is telling us is that oil majors are rolling in cash and they don't see their prospects dimming over the next few years. It's quite the reversal of fortunes and begs the question: What to do with all that money?

To buy or buyback?

One option is **returning** more money to shareholders. It's true that a lot of this money is already going back to investors, but I have an inkling this isn't the whole picture. First, the majors are worried about a potential political reckoning **brought about** by their stratospheric profits at a time when inflation is starting to bite. It might be unpalatable to increase dividends or share buybacks.

But there are also broader market trends to consider. In the past, these companies would aggressively invest in new fossil fuel assets when prices were high. This time round, with the **exception** of TotalEnergies, the European majors **are not**. In fact, in a recent feature with the Financial Times, Shell's CEO Ben van Beurden said that the current crisis will only make Shell transition **faster** and that supply will have to adjust to a world of lower demand. The fact that the head of one of the largest oil and gas companies in the world is even saying this shows how far we've come.



“Acquiring a company that has a significant renewable energy pipeline would be a boon for any major, but that doesn’t make it a done deal”

So if massive investments in new oil and gas fields are not on the table and just returning money to shareholders is politically risky, could we see more money flowing into transition strategies?

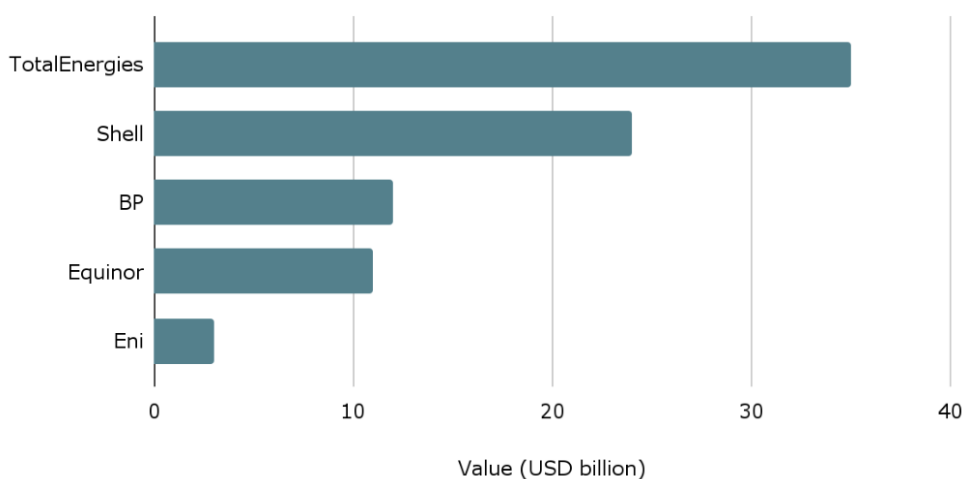
Well, there **are murmurs** that oil majors Equinor, Shell or TotalEnergies are looking into **the possibility** of acquiring one of the major European utilities, like Iberdrola, Ørsted or SSE Renewables, which have emerged as major renewable energy players. Whether a deal goes ahead seems to depend on whether the majors decide to buy renewable energy capacity or actually build it themselves.

Acquiring a company that has a significant renewable energy pipeline would be a boon for any major, but that doesn’t make it a done deal.

In fact, we’ve been here before and nothing came of it. In the past, TotalEnergies **explored** the possibility of purchasing EDP-Energias de Portugal, but dropped the idea. Buying these sorts of companies for their renewable energy assets would prove to be **too expensive**, said CEO Patrick Pouyanné, and he’s not averse to taking risks. Through a series of smaller deals, Pouyanné made Total a leading player in the energy transition. Its low-carbon business **is the most valued** among its peers, according to RBC Capital Markets. But purchasing a group the size of Iberdrola is ambition on a whole other level.

Market value of the majors' low carbon businesses

Source: RBC Capital Markets



Admittedly, the facts on the ground are different now. The majors’ balance sheets **are** in a healthier state and, with the influx of cash not set to end anytime soon, they will be in a comfortable financial position for the foreseeable future. However, not all analysts **are convinced** that buying a utility would

add any value. They operate in different sectors and in different lines of businesses, and buying a utility without properly understanding these differences could prove risky for the majors. Shell [has already ruled out](#) the possibility of acquiring Ørsted, stating that it would like to be more customer facing rather than own a large number of windparks.



Clean energy investments

Renewables

Equinor enters the US battery market. Equinor [has acquired](#) a 100% stake in US battery developer East Point Energy for an undisclosed sum. Headquartered in Charlottesville, Virginia, the developer [has](#) a 4.1 GW development pipeline of storage projects across the US East Coast. The energy storage market [is expanding rapidly](#) in the US, with developers expected to bring 5.3 GW of co-located capacity (sited next to a power plant) and 4.9 GW of stand-alone storage (where the battery is developed independently) online in 2022.

Shell looks to leverage one of Southeast Asia's fastest growing renewable markets. The company [has joined](#) forces with nickel ore miner Nickel Asia Corp to develop 3 GW of renewable energy capacity across the Philippines. Their joint venture will focus on deploying solar, onshore wind and battery storage projects. By 2028, the companies want to have deployed the first 1 GW of capacity.

Equinor begins work on a large solar project in Brazil. In partnership with two renewable energy developers, Hydro Rein and Scatec, [the company has started building](#) the Mendubim solar project in the state of Rio Grande do Norte in Brazil. The 531 MW project will cost an estimated USD 430 million and has already secured a power purchase agreement (PPA) for 60% of its electricity output for the next 20 years. Meanwhile, TotalEnergies has [commissioned](#) a 100 MW solar farm in Uzbekistan, bringing the country's installed solar capacity from 4 MW to 104 MW in one go. The Tutly solar project is located 100 km west of Samarkand.

TotalEnergies eyes gigawatts of offshore wind capacity in Denmark. The French major [has revealed](#) it is eyeing up to 5.8 GW of offshore wind capacity in Denmark with two projects. After announcing the launch of an innovation hub in New York, Equinor has also [partnered](#) with Integrated Smart Energy Laboratory (ISEL) to develop data-led innovations in offshore wind. Though these announcements seem small, they point to ongoing involvement in innovation in clean energy.

Hydrogen

Shell unveils Europe's largest electrolyser. The company [has taken](#) the final investment decision (FID) on constructing the largest green hydrogen (produced with electricity from renewables) plant in Europe - Holland Hydrogen I. The project is [10 times](#) larger than Europe's current biggest operating plant. The first phase of 200 MW of electrolysers will be commissioned in 2025 and will source power from the 750 MW Hollandse Kust Noord offshore wind farm. Once it is complete, Shell intends to use the 60 tonnes of green hydrogen the plant will produce daily to supply its Shell Energy and Chemicals Park in Rotterdam. The fact that Holland Hydrogen I [was awarded](#) a slice of the EUR 1.8 billion EU Innovation Fund probably helped the project secure its FID. By 2027, the project will have a total capacity of 400 MW of electrolysers.

Smaller deals show other majors committing to low carbon hydrogen. BP [has signed](#) a memorandum of understanding (MoU) with Thyssenkrupp Steel for the supply of low carbon hydrogen and renewable energy in steel production. This includes both green and blue hydrogen (made through a process using natural gas or coal with carbon capture and storage). One way of reducing emissions from steel is by replacing coal-fired blast furnaces with direct reduction plants that use low carbon hydrogen. In other news, Repsol - which targets 1.9 GW of electrolyser capacity by 2030 - [has signed](#) a collaboration agreement with Navantia to produce green hydrogen in Spain. Navantia's Seaenergies division will begin operating an electrolyser production line at its turbine factory in Ferrol.

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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 BloombergNEF.

Feel free to forward this newsletter on to colleagues!

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