3 March 2021
Equity Research
Americas | United States

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ESG Research

Takeaways From ESG Panels at Our Annual Energy Summit

Thematic Research | Environmental, Social and Governance (ESG) Research

Environmental, Social and Governance (ESG) Research

Credit Suisse Environmental, Social and Governance (ESG) research seeks to focus on sustainability and accountability factors that are then integrated into the investment process.

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As part of the Credit Suisse 26th Annual Energy Summit this week, we hosted a handful of ESG-related discussions: 1) **E&P Defining the ESG Framework** with Lloyd Visser (VP of Sustainable Development at ConocoPhillips) and Will Jordan (EVP, General Counsel and ESG Committee Chair at EQT Corporation); 2) **Midstream ESG Opportunities** with Colin Gruending (EVP and CFO at Enbridge), Kim Allen Dang (President of Kinder Morgan), and Janet Loduca (VP, Legal and Sustainability and General Counsel at Pembina); 3) **Canada Net Zero** with Brian Vaasjo (President and CEO of Capital Power) and Scott Balfour (CEO of Emera); 4) **Baker Hughes ESG Fireside Chat** with Allyson Anderson Book (VP of Energy Transition); and 5) **Chats with renewable natural gas companies** - Clean Energy Fuel & Aemetis. Below we provide the key takeaways and themes from the panel discussions:

- **A long way to go, but moving in the right direction:** With the energy industry facing a world that is still heavily reliant on fossil fuels while demanding an urgent reduction to GHG emissions, pure-play upstream and midstream energy companies are pressured to find the "optimized" ESG approach and strategy going forward. We inferred from the panelists that a key part of this challenge is not having clearly defined disclosure standards related to metrics and performance. There's also frustration around an overabundance of opinions on "what matters" for the industry. That said, it was clear that companies across the energy spectrum are stepping up their ESG-related efforts, which includes putting sustainability-focused leaders and low-carbon/new ventures teams in place, increasing disclosure and alignment with TCFD/SASB, and setting interim GHG emission reduction targets. Executing and accelerating the delivery of such targets will be critical.
- **North American energy companies much more cautious toward net zero pledges:** From E&Ps to midstream to utilities, panelists sounded caution around moving too fast on the energy transition that may hurt corporate returns and/or jeopardize energy costs and security. When making the contrast between the European Majors and the US producers, **COP** noted that the climate commitments of companies in an energy producing region should be different from those of an importing region under the energy security lens. And investors should also differentiate companies based on cost (and carbon intensity) of supply. Canadian utility/power companies, **EMA** and **CPX,** noted significant challenges in reaching the nation's 2030 decarbonization targets (even more so than the 2050 net zero target) without risking higher electricity costs and reduced power reliability. Weather impacts create concerns for some intermittent renewable power – especially with extreme cold. Panelists broadly noted economic returns as the key hurdle to scaling up transition investments and deferred to advancement of technology and innovation to bridge the long term emission reduction gap.
- **Near-term focus on decarbonizing own operations: BKR's** target of a 50% reduction in Scope 1 and 2 emissions by 2030 will be achieved by renovating and improving the energy efficiency of its buildings, mitigating/eliminating from its direct facility and manufacturing sites, implementing a vehicle idling program, and shifting to renewable power. **COP** plan's to achieve a ~40% reduction in Scope 1 and 2 emissions by 2030 by reallocating capital to its lower emission-intensity assets, eliminating routine flaring by 2025,

and installing vapor recovery and 24/7 equipment to better monitor, measure, report, and reduce methane emissions. Meanwhile, **EQT** has already eliminated flaring and is in process of switching to pneumatic devices powered by electricity rather than natural gas (~90% of its methane footprint). While direct emissions from midstream providers are the smallest portion of the oil & gas supply chain (just 2%), the three panelists' companies are taking steps to eliminate them, such as **ENB** self-powering its pipelines with solar energy.

- **More near-term transition opportunities for midstream and power producers, but most are evaluating longer-term solutions:** The growing demand for **renewable/biodiesel** has provided **KMI** an opportunity to expand its existing hub facilities on the west coast for blending and then transport; it is also working with customers to increase the amount of **renewable natural gas** and **"responsibly sourced" natural gas** on its systems. **ENB** and **EMA** have **hydrogen blending** pilot projects underway, while the latter is also exploring **block energy** which uses distributed energy (rooftop solar) with battery interconnects to provide secured, clean energy to new communities. Longer-term, nearly all of the panelists' companies are evaluating and monitoring opportunities related to **carbon capture storage** and **hydrogen** which will depend on policy and technology developments. **BKR** is also looking into **geothermal** and **energy storage** solutions, and **carbon offsets** (so is **COP**).

- **North American natural gas has an integral role to play in the energy transition:** The panelists were generally all in agreement that natural gas will be needed for emerging countries (e.g., China and India) to shift away from coal for power generation (similar to what has occurred in developed countries) and as a backup energy source for wind/solar which inherently come with intermittency issues. Interestingly, **KMI** noted that the US not only has one of the most abundant natural gas resource bases in the world, but it also has the third lowest carbon intensity factor among major producers (only behind Norway and Canada) which makes it a prime candidate for LNG exports as long as it's "responsibly sourced" with no routine flaring. **EQT** – who operates in the lowest-emitting natural gas basin in the US – seeks to be a leader in this area and realize ESG accretion through consolidation (i.e., improve the environmental footprint of companies it acquires), although it makes target setting a dubious process.

- **Renewable natural gas (RNG) is picking up steam across the energy supply chain:** Given the importance of natural gas, RNG is a natural low-carbon alternative with economics supported by attractive subsidies which are currently in place in California but also under discussion in Washington State and New York. We were particularly surprised by the economics of RNG sourced from dairy farms. **Aemetis**, a RNG producer in CA, noted that they receive $137 per MMBtu sold, of which just $2/MMBtu comes from the gas sale, $30/MMBtu from D3 RIN credit (federal renewable fuel standard program), and $105/MMBtu from LCFS credit (CA program aimed at reducing transportation emissions). Given CA regulations to limit agriculture emissions, dairy farms will be incentivized to capture biomethane to avoid penalty which will in turn drive exponential growth in RNG supply. **CLNE** (distributes nearly half of RNG volumes in the US) should also benefit. On the demand side, RNG can be used as a drop-in alternative in CNG/LNG transport vehicles, while midstream and power producers are more than happy to transport/use RNG instead of natural gas to reduce their own emissions of energy supplied.

- **Anticipating an escalation of government support and policies:** All of the panelists seem to be anxiously awaiting not only what the Biden administration does to step up regulation on the fossil fuel industry (namely related to methane emissions), but also how climate-related commitments and policies transpire globally. With countries responsible for >60% of global emissions having announced or are considering net zero targets by mid-century, we (and several of the panelists) expect such commitments and policies to escalate ahead of the COP26 meeting in November which **PPL** believes presents an opportunity to help other economies achieve their climate goals. Nonetheless, this political uncertainty needs to be alleviated in order for companies to effectively plan their go-forward ESG and climate strategies. In particular, **COP** believes a key development this year will be the movement towards standardized ESG-related disclosures, which will go into effect in the EU starting next year; the US' SEC and China are also moving in this direction.

- **Markets are focused on emissions, but companies are taking a holistic approach to ESG:** While the ESG conversation for energy companies generally revolves around reducing emissions, we thought it was notable that the panelists' companies are making contributions in other areas as well. Some comments that stood out include: **BKR** does a lot of active volunteering, such as a career mentoring program in South Korea; its CEO is also "very outspokenly committed" to improving gender diversity which is a challenge in the oil and gas industry; **COP** discussed how protecting biodiversity is a core part of its ESG principles and it takes advantage of its global footprint by providing input to TCFD/SAB, net zero benchmarks, and debates around transition pathways; **EQT** is engaged with 13 different stakeholder groups with a goal to either 1) adjust strategy based on their input; or 2) provide them with feedback when not aligned with their input; the **midstream** and **Canada net zero** panelists highlighted the importance of engaging with local communities in a way that makes infrastructure projects "mutually beneficial" which is not only socially responsible but also increasingly becoming a differentiating factor for gaining new contracts.

Companies Mentioned *(Price as of 02-Mar-2021)*
Aemetis (AMTX.OQ, $16.97)
Baker Hughes Inc. (BKR.N, $24.37)
Capital Power Corporation (CPX.TO, C$34.71)
Clean Energy Fuel (CLNE.OQ, $13.23)
ConocoPhillips (COP.N, $52.28)
EQT Corporation (EQT.N, $18.44)
Emera Inc. (EMA.TO, C$51.7)
Enbridge Inc. (ENB.TO, C$44.25)
Kinder Morgan Inc. (KMI.N, $15.09)
Pembina Pipeline Corporation (PPL.TO, C$32.89)

Disclosure Appendix

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