# 2022 ENERGY PREDICTIONS

CANARY



In collaboration with

Predictions are a funny thing in a turbulent atmosphere. COVID (still), the rise of the millennial workforce (shifting priorities), climate attitudes (different than last year), and global resilience (innate human attribute) all factor heavily into both the sellside and buy-side of energy--the flywheel of civilization. We reached out to friendlies, skeptics, professors, CEOs, and scientists to triangulate the 10 things that will impact our industry the most next year.

### Top 10 Energy Trends Powering 2022

## The Great ESG Reckoning: Greenwashing Is a Risk of Authenticity. Annual Progress Is Now Required.

ESG statements are now ESG reports, and climate pledges won't cut it for the "E." Investors, compliance teams, regulators, communities, and your employees will demand climate action and proof of authentic progress. A detailed and grounded ESG report can showcase the ethical production of energy and energize your stakeholders. Climaterelated risks and opportunities are standard assessments and critical discussions for both public and private companies now. The clear trend is more reporting and verification of emissions reduction.

Gone are the days of vague promises and pledges, which don't have a binding nature to them. Net-zero by 2050 sounds like another lifetime for most of your workforce, and it's too vague at a time when ESG is influencing capital markets. Progressive companies will show demonstrative, measured annual progress toward climate goals. ESG fidelity is your license to contribute to society and continue to operate.

#### 2. Skepticism About Carbon Offsets as the First Step.

Purchasing carbon offsets has been a popular approach for companies looking to decrease their carbon footprint. But skepticism is growing. <u>Questions</u> about the integrity of these programs have started to surface. In one particularly egregious example, the state of California sold offsets on a forest that was <u>literally on fire</u>.

Offsets are not a sustainable first step towards carbon neutrality. Some have even estimated that offset-demand will <u>outstrip</u> <u>supply</u> by the year 2025.

As the controversy surrounding offsets comes to a head, we predict the focus will shift from the front end of the "net" formula to carbon emissions [MT CO2] minus offsets. This also means that companies will no longer be able to try to buy their way out of a crisis and will have to enact other climatepositive strategies with supplemental offsets.

### The Millennial Rebellion.

We've all seen the "Talent Migration" headlines. More freedom and more choices mean that talent can claim the upper hand when selecting an employer. This pressure will be felt even more acutely by the oil and gas industry and higher education institutions involved in training the next generation of our workforce. Millennials now make up the <u>majority</u> of the workforce and hold mid-senior positions that can wield more influence, and Gen Z is right behind them. Both generations are geared toward conscious capitalism and are <u>acutely aware</u> of climate change, and ready to take action.

Oil and gas companies are feeling the burn when it comes to talent attraction and retention, and it's only going to get worse. Higher learning institutions, too, will need to shift approaches. While traditionally institutions have focused on training petroleum engineers, expect to see more of a focus on molecular engineers, prepared to work on carbon sequestration and other mission-critical climate initiatives in the near future. ESG and substantive work to combat climate change will be the base for talent training, acquisition, and retention in 2022 and beyond.

Along these lines, we're seeing a digital revolution taking hold among traditional, more "analog" oil and gas firms. Some forward-leaning companies like EQT, Ovintiv, Civitas, and others are embracing technology to drive efficiencies and environmental gains. Continuous operations monitoring is critical to high performance and profitability and, coupled with normalization of remote work, and we expect the oilfield to get digitized.

#### **4** Corporate Responsibility: The Mission-Driven Organization Will Reign Supreme.

With increased scrutiny on ESG performance and a push from employees, more organizations will be forced to take a stand on climate change and demonstrate what actions they're taking to contribute to climate ROI. Stakeholder capitalism, despite <u>protests</u>, is here to stay. Corporations can no longer focus on the subset of stakeholders that wield financial power. Customers, employees, and communities are being given a <u>seat at the table</u> alongside investors. And these newly empowered stakeholders are ready to go to bat for our planet.

A focus on climate can't just be relegated to a glossy website tab or sidelined into CSR initiatives. Growing pressure demands that corporate responsibility become embedded into a company's mission. The number of certified B-Corps has <u>tripled</u> over the past five years, and ESG was mentioned an average of 2x/earnings call/quarter in 2021. Expect to see ESG becoming a part of corporate DNA.

## **5.** The Rise of Certified RSG.

While it's clear that natural gas will continue to play an important role in our energy mix, what can energy companies do to alleviate the pressure from the media, public, regulators, and investors? <u>Responsibly Sourced Gas</u> (RSG) has taken hold in 2021 as a solution, and it's only going to pick up steam in the year.

It's estimated that 15-20% of the national market for natural gas is already being certified. We believe this trend is set to take flight in 2022 when we anticipate that number to double in the US. Expect to see a growing number of fossil fuel products that account for both scope 1 and scope 2 emissions.

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#### New Markets for Other Low-Emission Fuels.

Natural Gas has seen the Responsibly Sourced Gas market emerge over the last year, with incredible adoption in less than 10 months. Public Utility Commissions are already considering cost recovery mechanisms to encourage the demand for RSG to move to 100% of natural gas production. Oil and Gas producers that aren't in high natural gas producing basins like the Haynesville or Appalachia have been slower to adopt certification and monitoring due to the increased volume of crude they produce (higher methane intensities). However, companies in the Permian and similar basins are moving to certify their production in the hopes that new markets for differentiated crude will appear.

There's intense public scrutiny on associated gas management, and producers that turn to certification can gain a leg up on in-basin peers. More gas pipelines are coming online in the Permian and, with direct access to LNG markets, West Texas is well-positioned for an RSG breakthrough.

What's more, the aviation industry has a significant decarbonization problem. With electric planes decades away and Sustainable Aviation Fuel at a 6x cost of regular aviation fuel, cleaning up the supply chain for crude oil that is converted into jet fuel could dramatically reducing scope 3 emissions for an industry that has few other solutions. Forward-thinking producers in more liquids-rich basins will start to undergo certification and monitoring with the hopes that industries like aviation will recognize the benefit of a certified low-emission supply chain.

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#### ESG as a Prerequisite for Access to Capital.

ESG created a reshaping of capital flows. Now, investors are calling for ESG competence, meaning that Boards are evolving their oversight structure and creating ESG committees. This means the demand for more information, quantified metrics, and independent, verified disclosures are quickly becoming the SOP.

We predict access to capital, loans, ability to exit, and IPO will all be tied directly to ESG data in 2022 and beyond. Despite lingering ESG confusion internally at many companies--what reporting structure to use, who owns the report, how to map ESG to SDG, activating employees around ESG--the pace is only accelerating. RFIs already have mandatory ESG reporting, climate provisions are a standard part of risk assessments, and the finance world is on the leading edge of all things ESG.

ESG reporting and progress are securely embedded in nearly all financial conversations. From earnings calls to RFIs and pitch decks, it's a growing requirement up and down the energy supply chain. In fact, ESG is a factor in determining enterprise value and a part of financial disclosures related to climate risks. Because of this, the function of ESG reporting will be built alongside Corporate Finance with a 1:1 ratio of FTEs.

## 8 CH4: Methane Takes the Spotlight From Carbon.

As COP26, the Biden Administration's US Methane Emissions Reduction Action Plan, and the proposed EPA regulations OOOOb and OOOOc show, sustained focus on methane is here to stay. With the world watching and methane acknowledged as "low hanging climate fruit," the focus will shift to CH4 and not just in the energy sector.

Much of the public focus on methane emissions is on the production side of the oil and gas sector, but these represent only one portion of human-caused methane emissions. We expect to see increased scrutiny on methane emissions extend to other high emitting industries, like landfills/waste, agriculture, and even renewable natural gas.

## **9**. Europe and Asia Will Require Measured LNG Carbon Footprint.

European and Asian buyers are increasingly focused on the carbon intensity of their fuel purchases. Real and even perceived issues with associated gas can sink long-term LNG contracts.

Ultimately countries (LNG buyers) face the dual challenge of providing reliable and affordable energy that's also clean. France was <u>convicted</u> in February 2021 for failing to meet its commitments under the Paris climate accords, and many other European and Asian countries are running into the same problem--decarbonization goals simply do not match up with the realities of the demand for fossil fuels. In countries like Germany, Poland, or Japan, where climate commitments require reductions in the use of coal (their #2 most used fuel source), LNG from the US is a means to reduce combustion emissions. Beyond the combustion of natural gas, the US has some of the lowest methane intensity (supply chain emissions) compared to other competing countries like Russia. The market is demanding a measured LNG footprint so European and Asian countries can justify the procurement of LNG.

## **10.** Carbon Sequestration Will Take Hold.

Carbon sequestration is starting to grab headlines and pick up steam, but we believe it's underestimated in the marketplace. We predict 2022 will be the year of carbon sequestration. The global carbon capture, utilization, and storage market was valued at \$1.9 billion in 2020, and is projected to reach \$7.0 billion by 2030, growing at a CAGR of 13.8% from 2021 to 2030. Given the potential returns on CCUS projects and technology over the next 9 years, oil and gas companies with the existing infrastructure to support capture, transmission, and storage of Carbon through the reallocation of midstream assets and harnessing of upstream knowledge for drilling injection wells will be able to diversify their revenue streams and benefit from improving economics of CCUS (due to California's Low Carbon Fuel Standard and the federal government's 45Q tax credit program).

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