Midstream Partnering for a Cleaner Tomorrow

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Summary

- Midstream's operational capabilities and existing infrastructure network can be leveraged as is or potentially repurposed to service alternative fuels or byproducts like carbon dioxide. Even in an evolving energy landscape, the ability to safely move energy (or other gases or liquids) is an asset.
- Through strategic partnerships, midstream names and alternative energy producers can share capital costs, while leveraging their respective strengths.
- The fact that the integrated majors and notable alternative energy companies are partnering with midstream names speaks to the potential for midstream to play a critical role in a cleaner energy future.

Decarbonization initiatives continue to broadly gather pace, and midstream companies are positioning to participate in opportunities stemming from the energy transition. With this backdrop, today's note focuses on the recent string of announced partnerships between midstream companies and a variety of other energy players, who are teaming up to leverage their respective expertise in solving challenges and ultimately capitalizing on the push towards cleaner energy.

What makes midstream a desirable partner for alternative energy opportunities?

Midstream's operational capabilities and existing infrastructure network can be leveraged as is or potentially repurposed to service alternative fuels or byproducts like carbon dioxide. Even in an evolving energy landscape, the ability to safely move energy (or other gases or liquids) across hundreds of miles is an advantage for midstream. In particular, midstream assets are well suited for opportunities related to Carbon Capture, Utilization and Storage (CCUS), hydrogen, and renewable fuels, including renewable natural gas (RNG). The utility of midstream's asset and expertise is evidenced by the number of partnerships announced recently between midstream names and other energy companies that are working towards clean energy solutions.

Renewable fuels provide opportunities for growth while leveraging existing assets.

Transporting and storing liquid renewable fuels is a natural extension of midstream's capabilities with petroleum-based fuels. Midstream companies are already handling renewable fuels and their related feedstocks today (read more), but there is the potential for growth as renewable fuel production increases, including from the conversion of select US refineries to produce renewable fuels. Neste, the global leader in the production of renewable diesel and sustainable aviation fuel (SAF), has partnered with midstream companies to distribute its fuels and handle feedstocks. In Northern California, NuStar (NS) is supplying Neste's SAF to area airports using its Selby terminal and an existing pipeline. The partners plan to make Selby a hub for renewable diesel and SAF. Similarly, Neste and Kinder Morgan (KMI) are partnering to develop a raw material storage and logistics hub at KMI's Harvey, Louisiana, terminal to support increased production of Neste's renewable fuels. The project, which is backed by a long-term commitment from Neste, is expected to commence operations in early 2023.

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Collaborations reduce capital requirements and harness the unique strengths of each partner.

Through strategic partnerships, midstream names and alternative energy producers can share capital costs, while leveraging their respective strengths. For example, on September 28, Enbridge (ENB) disclosed at its inaugural ESG Forum a new partnership with Vanguard Renewables, a leading farm-based developer that converts food waste and dairy manure into RNG. As part of the agreement, ENB will invest up to $100 million on equipment to upgrade the farm-derived gas to pipeline-quality RNG and on transportation infrastructure. Meanwhile, Vanguard Renewables would invest up to $200 million in eight new production facilities that will supply ENB with 2 billion cubic feet (Bcf) of RNG annually. As another example, on their 2Q21 earnings call, management of Energy Transfer (ET) spoke generally about evaluating carbon capture projects that would be capital light or have more of the capital contributed by a partner. Clearly, partnerships can be a capital-efficient way to capitalize on new opportunities while sharing in the risk and reward.

Combining unique capabilities is critical to advancing clean energy technologies.

The benefits provided by strategic partnerships are also evident in initiatives surrounding hydrogen and CCUS, which require specialized capabilities. To that end, in conjunction with its ESG Forum, ENB also announced a memorandum of understanding (MOU) with Shell (RDS.A) to explore low-carbon solutions across their North American assets and potentially collaborate on opportunities related to hydrogen production, renewable power generation, and CCUS. Similarly, on September 13, Enterprise Products Partners (EPD) announced its partnership with Chevron (CVX) to study and evaluate opportunities around CCUS in the Mid-Continent and Gulf Coast. The collaboration will leverage EPD's pipeline and storage footprint with Chevron's sub-surface skill set. On September 22, Williams (WMB) announced an MOU with Ørsted A/S to identify ways to jointly develop hydrogen or synthetic natural gas facilities powered by renewables. As part of the MOU, WMB and Ørsted are evaluating a project in Wyoming, where WMB has significant assets and was awarded a $1 million grant from the state earlier this year to study green hydrogen production and transportation. More recently, on October 10, TC Energy (TRP) announced a partnership with Nikola (NKLA), a pioneer in zero-emissions transportation and infrastructure solutions, to co-develop large scale hydrogen production facilities in the US and Canada. The partnership contemplates using midstream assets to store and distribute hydrogen and/or to transport carbon dioxide to sequestration sites. The fact that the integrated majors and notable alternative energy companies are partnering with midstream names speaks to the potential for midstream to play a critical role in a cleaner energy future.

Bottom Line:

Midstream's unique assets and capabilities can clearly be leveraged in the push towards cleaner energy, as witnessed by the growing number of alternative energy collaborations between midstream and an array of partners. Aside from providing benefits to each party in the agreement and potential growth opportunities, strategic partnerships provide a viable way to help solve challenges in the ongoing energy transition.

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