Financing energy in an ESG-focused world

- Oil & Gas
- Renewables

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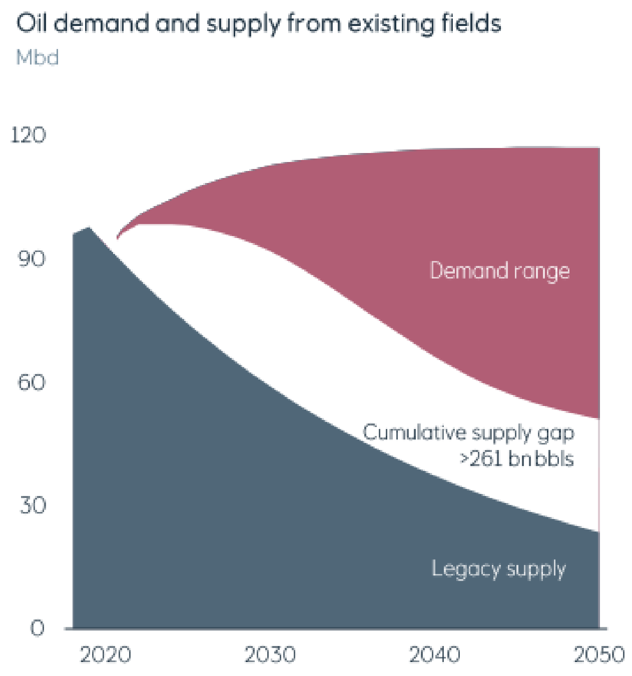
Oct 21 2021

Investments
How to fill the gap



Source: IEA (history), Equinor (projections)

Investors and banks less eager to finance oil & gas projects

- Deepwater: 3-5 years from find to FID. 3-5 years from FID to first oil. 15 years pay-back period. Need to believe in demand 20+ years out. Gets iffy.

Natural decline from old fields

- Seen at ~3 mb/d per year, if no further investments.
- Renewable energy may not come fast enough.

Financeable projects to fill the gap:

- Infill drilling, new fields near existing infrastructure
- US shale. 3-6 months from FID to first oil, payback in 2 years.
- Known fields in certain Opec countries
- Financing rather by company earnings and Private Equity

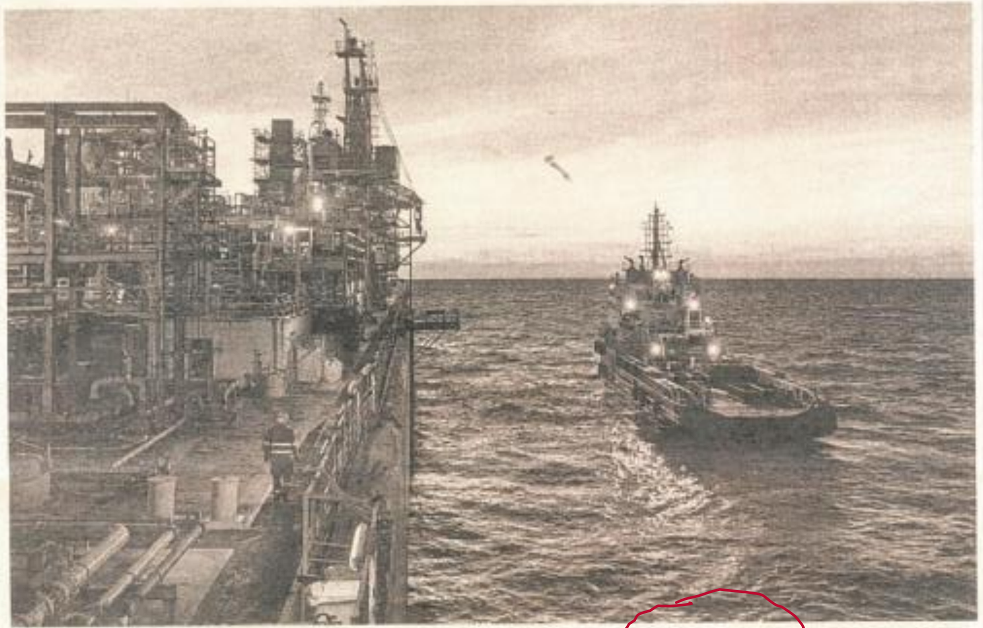
Inability to fill the gap means a lower standard of living
- and high oil prices……

Financing oil and gas – Private Equity not committed to ESG

Hedge funds cash in on unwanted oil and gas stocks

Discards from big institutions offer rich returns boosted by soaring prices for energy

LAURENCE FLETCHER — LONDON
DEREK BROWER — NEW YORK



Jadestone Energy's Montara project, offshore Australia. Shares in the producer have risen 44 per cent this year, benefiting hedge fund Odey Asset Management

Hedge funds have been quietly scooping up unloved oil and gas stocks discarded by environmentally minded institutional investors and are now reaping big gains as energy prices surge.

Managers of hedge funds in the US and UK have been betting that the eagerness of many big institutions to be seen to embrace environmental, social and governance standards means they are selling wholesale out of fossil fuel stocks, even though demand for some of these products remains high.

"It's such a great and easy idea," Crispin Odey, founder of London-based Odey Asset Management, told the Financial Times.

"They [big institutional investors] are all so keen to get rid of oil assets, they're leaving fantastic returns on the table," said Odey, whose European fund is up more than 100 per cent so far this year.

The company has been building its position in oil and gas stocks this year and has sizeable stakes in groups including Aker BP, the Norwegian oil company, whose shares are up about 43 per cent, and Jadestone Energy, the Asia-Pacific-focused producer, which is up 44 per cent.

Odey said he had also been providing financing for unlisted vehicles that are being set up by commodities companies specifically to buy up unwanted assets being sold off by the oil majors.

The move away from fossil fuels by big institutions has often left hedge funds, which face fewer pressures to conform to ESG norms than mainstream fund companies, among the only buyers. This can present attractive opportunities, although it can leave them exposed to falls in energy prices or further selling by big investors.

matter, ranking it as one of the world's top-performing funds.

"Many of these companies are trading at very low cash flow multiples and at very big discounts to the replacement value of their assets," said Young. "More people are driving gas-powered cars and scooters than ever."

The pressure on institutional investors from climate lobby groups to stop funding fossil fuel companies has intensified markedly in recent years. Pension funds, charities, churches and other faith groups and universities, which through funds they hold, are among those that have committed to selling out of such companies as a way of combating climate change and shifting investment towards more renewable forms of energy.

DivestInvest, the climate activism group that pushes investors to make no new investments in the top 200 oil, gas and coal companies and to sell any such positions within three to five years, says it has received pledges from more than 1,300 organisations managing $14.5tn in assets.

'People don't understand how much money you can make in things that people hate'

Josh Young, Bison Interests

offers a "huge investment opportunity" for their fund.

Renaud Saleur, a former trader at Soros Fund Management and Jabre Capital, who now heads Anaconda Invest, said the effect was particularly striking in Europe, where investors had embraced ESG concerns to a greater extent than in the US.

"In Europe, people have been more keen to blackwash the oil and gas industry. It's mere stupidity. This [sector] produces money to fund the energy transition," he said, adding that these

Financial Times, Oct 8 2021

A leading company in the energy transition

ACCELERATING OUR TRANSITION

N

Always safe
High value
Low carbon

High value growth in renewables

New market opportunities in low carbon solutions

Optimised oil & gas portfolio

OUR AMBITIONS

50 %
of gross investments to renewables and low carbon solutions by 2030

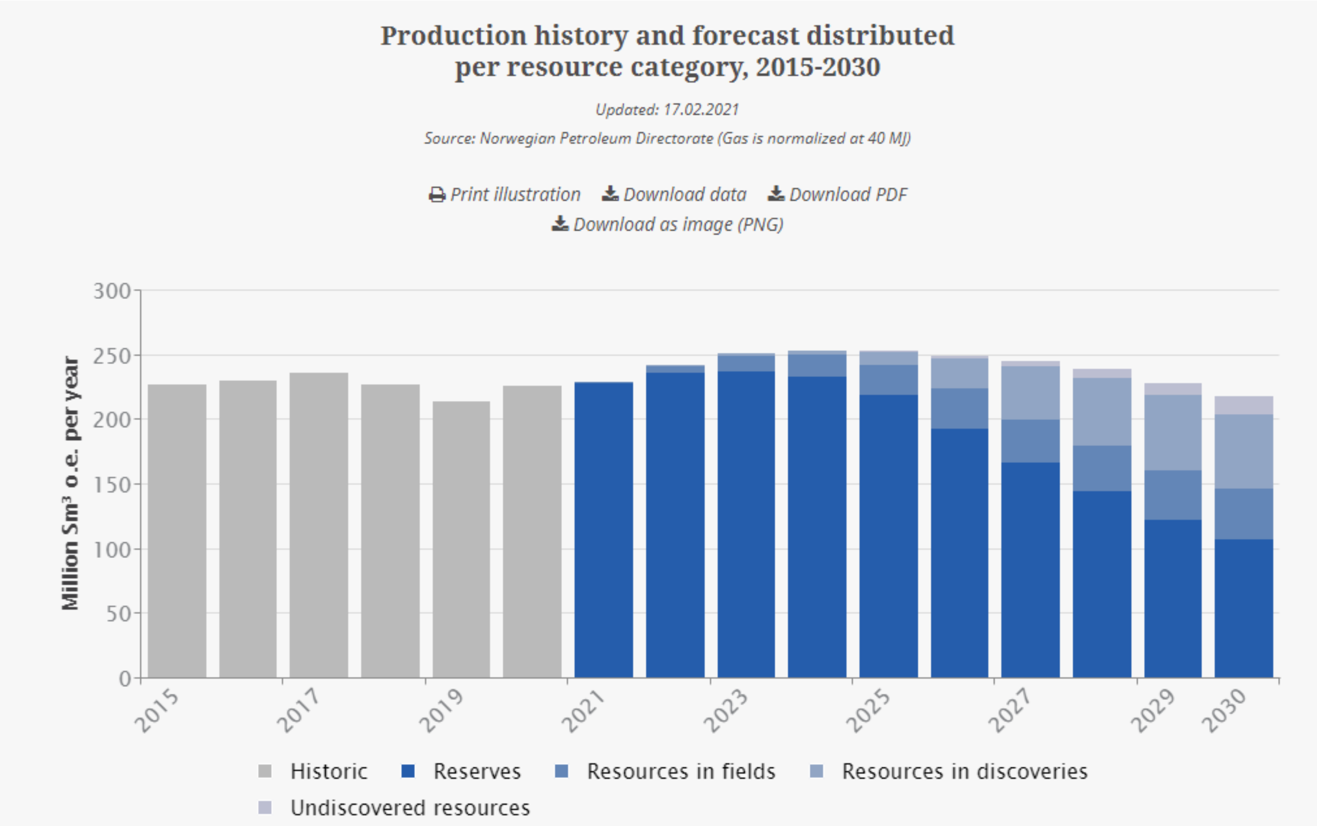
30 USD PER BBL
Portfolio cash flow positive at 30 USD per barrel until 2026

40 %
Reduce net carbon intensity by 2035

equinor

equinor

Norway will have to re-invent itself post 2030



Source: Norwegian Petroleum Directorate

Restricted

Financing

Fossil vs Renewables – ROCE calculations

	FREE	Capex	Opex	Connect	Price	Hedge	Balancing	ROCE
FOSSIL	Oil & gas in the ground	Land, drilling Topside	High	Pipeline Ship	Platts, Argus, TTF	ICE, Nymex	Tanks, injection	Known risks
GREEN	Rain	Hydropower plant	Low	Power line	NordPool etc. PPA´s + ETS	NordPool etc PPA´s +ETS	Dams, pump-backs	Works, higher risks
	Wind	Windmills	Low	Power line	– « -	- « -	None	?
	Sunshine	PV panels	Very low	Power line Roof top	- « -	- « -	None	?

- Grid capacity
- Local markets

- Intraday variation
- Low Opex, will produce at zero price
- Market not designed for intermittent supply

- Difficult in local markets
- PPA´s: Supply/demand imbalance Producer or customer must hedge surpluses and deficits
- Carbon price (ETS)?

- Batteries, hydrogen
- (+ fuel cells)
- Adds to Capex
- Tech development expected

Financing

Making Renewables investments attractive – what´s needed?

- **Power grid to be expanded**
    - Connecting markets, to allow common pricing
    - Grid cost/loss then to act as CIF/FOB diff´s
    - Public acceptance of near-by power lines
    - Determine how it´s paid for
- **Determine acceptance of CCS and ‘blue’ hydrogen**
    - Projects like Equinor´s Energy Hub depend on this
- **Well-working Carbon markets (ETSs)**
    - Sets price advantage for renewables over fossils
    - Predictable Government policy
    - Hedgeable forward prices

- **Power markets designed for intermittent supply**
    - Short-term price setting (next 5 min?)
    - Secure quick back-up supply (gas/hydro)
- **Develop PPAs (Power Purchase Agreements)**
    - Fixed price to relate to a tradeable forward market
    - Ability to hedge surplus/deficits in daily supply
- **PROBLEM:**
    - This all takes time, delaying actual construction
    - Oil & gas supply may become insufficient in the mean-time

Financing

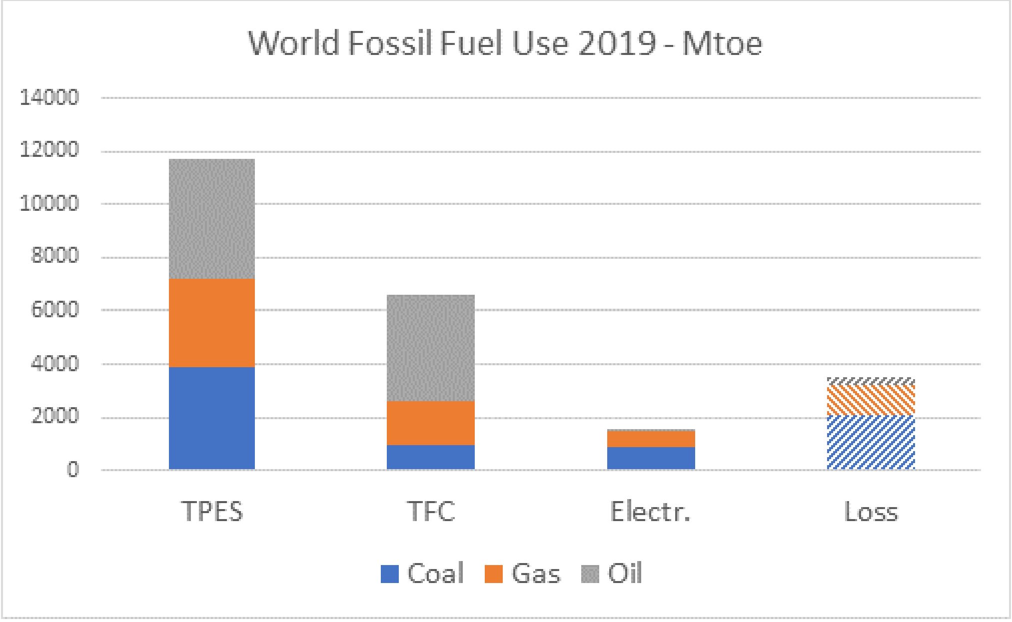
What to invest in ?

- Consumers buy GWh, not GW installed

CHINA ELECTRICITY, monthly avg.	2 020	2021 t.d.
Final consumption (TWh)	**614,4**	**672,8**
Agriculture	11,6	12,5
Industry	416,0	452,6
Commercial and services	81,1	95,2
Transport	14,5	16,4
Residential	91,2	96,2
Gross production (TWh)	**693,0**	**791,2**
Hydro	123,2	104,3
Thermal	470,4	557,0
Coal-fired	416,9	482,5
Gas-fired	22,3	27,4
Nuclear	33,3	38,9
Wind	42,4	65,3
Solar	23,7	25,8
Utilization rate (percent)		
Hydro	45,2	39,5
Thermal	48,5	50,8
Coal-fired	*49,8*	*52,4*
Gas-fired	*30,0*	*31,9*
Nuclear	86,6	90,3
Wind	23,8	26,5
Solar	14,8	15,6
National average	**43,4**	**43,6**

Source: IHS

- The low-hanging fruit: Replace coal in el. production



Source: IEA

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