Energy Transfer Focusing on Current Assets, Little Interest in Hydrogen

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Energy Transfer L.P. is concentrating on using its vast network of liquids and natural gas pipelines, processing facilities and storage terminals to drive earnings growth in the coming years and sees little room for hydrogen to play a role, officials said in recent comments.

Record volumes of natural gas liquids (NGL) and refined products on the Mariner East pipeline system in Pennsylvania and strong volumes on NGL pipelines in Texas were highlighted during an earnings call with analysts and at the Natural Gas Forum 2020 event. At both venues, officials from Energy Transfer minimized the potential for hydrogen to play a role in a clean energy transition, referring to pipeline corrosion issues and high costs compared with natural gas prices.

“There has been a massive push from the investment community” around hydrogen and its value in moving economies away from fossil fuels and lowering emission profiles, said Adam Arthur, senior vice president of business development at Energy Transfer. The company is studying hydrogen options, “but unless the economics change dramatically, we don’t see hydrogen as being a really viable alternative,” Arthur said November 9 at the Natural Gas Forum in San Antonio, which is part of the LDC Gas Forum series from Access Intelligence.

Officials at TC Energy and Williams Companies have discussed hydrogen transportation possibilities, while others have focused on costs and other renewable resource options for pipelines to lower their emission profiles. Emphasis on environmental, social and governance issues has been highlighted by companies in merger transactions and in recent earnings calls.

Although other energy and pipeline companies are turning to hydrogen as a means to pivot toward cleaner energy resources, "we have not seen that opportunity in the same light," Arthur told the Natural Gas Forum audience, which was both in person and online and put together by Access Intelligence. Besides the cost prohibitions, hydrogen is corrosive in pipelines and can present "serious operational issues," Arthur said.

Energy Transfer's Marshall, "Mackie" McCrea, president and chief commercial officer, discussed clean energy options being pursued by the company and said recent enthusiasm for hydrogen by other midstream companies is "a head scratcher." Hydrogen is corrosive to pipelines, and the cost of producing it through water electrolysis is about three times the value of natural gas, McCrea said during the November 6 call on third quarter earnings. Green hydrogen, which is produced through electrolysis using renewable resources such as wind and solar power, costs about eight times the value of natural gas, he said.

"At this point, we don't see anything close on the horizon around hydrogen," said McCrea, who recently was named to be co-CEO, starting January 1, 2021. McCrea and Tom Long, currently CFO, will be co-CEOs as Energy Transfer co-founder Kelcy Warren steps down as CEO at the end of the year but will remain chairman and be actively involved in the strategic direction of the company.

Europe is emphasizing hydrogen as a clean fuel of the future to support wind and solar power facilities, and governments are providing billions of dollars in subsidies, McCrea said.

If Energy Transfer customers come up with ideas for hydrogen transportation or if U.S. government policies subsidize the cost to make it more economical, the company will consider options. But right now, “it’s a head scratcher,” McCrea said.

During the earnings call and at the Natural Gas Forum, McCrea and Arthur mentioned how Energy Transfer is buying power from renewable resources to support operations and has patented dual-drive compressors that can use electricity or natural gas to drive compressors and lower the emission profile of pipeline operations. The dual drive compressors have been in use since 2012 and they have allowed the company to lower its carbon dioxide emission profile by 1 billion pounds, McCrea said.

The clean energy transition is a big topic right now, and Energy Transfer completed its first clean energy power purchase agreement for 28 MW from a solar project being developed by Recurrent Energy in the Permian Basin in west Texas. Energy Transfer will examine renewable power projects and it operates about 18,000 solar panel-powered metering stations across the country, but a likely role will be buying power from other clean energy project developers, McCrea said. The company will only make such purchases when it makes economic sense, and such agreements could amount to 100 to 200 MW, he said.

The 28-MW solar project being built by Recurrent Energy, a subsidiary of Canadian Solar Inc., will provide clean power to Energy Transfer under a 15-year power purchase agreement.

Other clean energy initiatives include examination of carbon capture projects and renewable diesel fuel to lower the environmental footprint of producers, McCrea said. Energy Transfer recently published its community engagement report outlining risk management and other steps on environmental issues. “As a company, we’re committed to identifying and implementing cost effective emission reduction and prevention opportunities, including the reduction of our carbon footprint,” McCrea said.

Energy Transfer will consider ways to integrate renewable resources into the business when it is economically beneficial, and transporting renewable diesel fuel on the J.C. Nolan pipeline in Texas is one of the steps being examined. That project would transport renewable diesel to the Midland, Texas, area to help producers power equipment and address emission concerns, Arthur said.

With the difficulty building new pipelines anywhere in the U.S. today, optimizing existing assets is key for Energy Transfer, Arthur said. With assets in 38 states and 90,000 miles of pipelines, the company transports 35% of the crude oil produced in the U.S. and 25% of NGLs, and it expects to be the largest exporter of NGLs as more projects begin service.

Consolidation in the upstream sector should help midstream operators by enabling stronger balance sheets at producer/shippers and better utilization of pipeline capacity, Long said during the earnings call. Consolidation in the midstream sector could be expected, he added.

During the third quarter, Energy Transfer completed its Lone Star Express pipeline expansion in Texas under budget and ahead of schedule, officials said.

The newly announced Pennsylvania Access project involves converting a portion of the Mariner East pipeline in Pennsylvania to carry refined products by the end of the year, which should help market players in the western part of the state, Arthur and McCrea said. A portion of an eight-inch diameter pipeline will carry refined products and provide consumers in the western part of the state access to lower cost gasoline while also enabling Energy Transfer to benefit from seasonality in refining markets, Arthur said.

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