CENTER FOR MIDSTREAM MANAGEMENT & SCIENCE
LAMAR UNIVERSITY

# 2023 CMMS Midstream Student Essay Contest

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## Better Emissions or Earnings: Mergers & Acquisitions in the Midstream Industry

When Environmental, Social, and Governance (ESG) investing took hold of large asset managers and institutional capital in late 2019 (Blackrock, 2019), it was clear that energy companies in all verticals were to come under siege. While Exploration & Production (E&P) companies received most of the scrutiny, investors fleeing from the whole industry meant that every vertical would have to find ways to comply with the new hierarchy of capital requirements, starting with a "new green image." To comply with that requirement, companies had two choices: grow a clean energy business organically within existing businesses or acquire and bolt-on that segment. For some companies, organic growth makes sense. For most, especially larger established businesses such as the "oil majors," the capital required to achieve impactful scale to the larger entity would vastly outstrip the cost of acquisition. These acquisitions, specifically Chevron's acquisition of Renewable Energy Group (REG) and Exxon's recent acquisition of Denbury, have drawn claims of "greenwashing" from investors and journalists alike. While those claims are generally baseless, the question remains: are acquisitions stunting the midstream industry's ability to cut emissions or are they helping it?

On February 29th, 2022, Chevron (NYSE: CVX) announced that it would acquire REG for $3.15 bn, one of the largest energy transition deals that had been done to date. REG operates 11 biorefineries in the US and Europe, with annual production of 519 mm gallons of fuel. In their press release, Mike Wirth, CEO of Chevron, stated "REG was a founder of the renewable fuels industry and has been a leading innovator ever since. Together, we can grow more quickly and efficiently than either could on its own" (ESG Today, 2022). While that statement is difficult to support due to the lack of disclosure by Chevron on its specifically renewable segments, Chevron pipeline throughput to REG's refineries and their subsequent higher renewable diesel sales are a testament to the synergistic alliances that midstream acquisitions and implementations can achieve to lower carbon emissions (CVX 10-K 2022, PG. 40).

Just over a year later, less than a month ago, Exxon (NYSE: XOM) announced its acquisition of Denbury in an all-stock, $4.9 billion dollar buyout. While seemingly inconspicuous to the rest of the world, this transaction is possibly the most important acquisition of midstream assets by a major oil company to further Carbon Capture, Utilization, and Storage (CCUS) technology in history. Exxon had long been vocal about its unwillingness to embrace clean energy at the peril of earnings for its shareholders. This deal demonstrates Exxon's willingness, and belief, in a profitable, clean future for the midstream industry. Denbury CEO, Chris Kendall, stated that "significant capital and years of work" are required to develop the CO2 business, making Exxon "the ideal partner with extensive resources and capabilities" (Reuters, 2023). The integration of Denbury's extensive carbon transport and capture pipeline business, along with their Enhanced-Oil-Recovery solutions, allow Exxon to both increase their bottom line and decrease their global emissions. The synergies of the deal include pipelines that "span the Gulf

Coast's petrochemical industry heartland, where Exxon has sought to build a carbon hub" demonstrating the thorough and complementary development that has and will continue to occur as these companies operate under the same banner (Reuters, 2023).

While both of these transactions, standalone, do not equate to a changing midstream industry, it is clear through the continued sequence of acquisitions that major players in the industry are willing to put capital behind new projects that are both advantageous to shareholders and to the environment. Many critics have vocalized complaints that acquisitions in the past have stunted the organic growth of companies such as REG and Denbury, stating that the "red-tape" that comes with corporate bureaucracy inhibits companies' abilities to affect change over long periods of time. For the midstream industry, that could not be farther from the truth. The capital intensity of the midstream industry, especially in the creation of new projects, lends itself perfectly to consolidation, allowing those with capital to deploy to find initiatives that reduce their own emissions instead of forcing independent companies to mitigate the damage of prior emissions. With plenty of dry powder in their pockets, it is clear that oil majors will continue to "pay-to-play" in the midstream industry, but that isn't necessarily a bad thing. For the midstream industry to transition along with the rest of the energy theater, capital must continue to flow into the industry. For that to happen, those initiatives must be accretive, both to shareholders and to the world.