Energy Intelligence

Energy Intelligence Premium Weekly

Thursday, September 29, 2022

Energy Transition: Signposts for Momentum

The Ukraine conflict has pushed the energy transition toward a "slower now, faster later" pathway, our analysis shows, but has also sparked many uncertainties about its pace and shape. This memo highlights five areas to monitor for changes in trajectory, ahead of next week's Energy Intelligence Forum.

Are electric vehicle (EV) sales poised for rapid growth? We are watching key markets China and Europe for signs of exponential growth (like mobile phones) and whether momentum could challenge modest expectations for the US. All regions should benefit from new policies and cost reductions — but we're also tracking charging infrastructure, near-term cost inflation and macroeconomic weakness as potential drags. Plug-in EV sales are nearing 20% of auto sales in Europe and hit 28% in China in August. US EV sales lag but are also rising, to 6%-7% in July-August. We are watching: (1) tighter upcoming EU emissions rules, (2) further extensions of China's EV subsidies, (3) impacts of tougher US rules on EV tax credits around domestic supply chains, and (4) evidence that battery costs are resuming rapid declines.

How will banks and investors reconcile ESG and energy security? The energy crisis has disrupted the financial industry's more uniform shift toward net-zero goals and ever-higher demands on energy company transition strategies. We still see climate risk financial management becoming mainstream long-term, constricting fossil fuel capital. But jurisdictional differences between the US and Europe will impact the pace. In the US, we're closely tracking the politicization of ESG for signs of slower restrictions on fossil fuel financing and more limited shareholder engagement. In Europe, the energy crisis has eased pressure to end fossil fuel financing in the immediate term and given oil and gas companies more leeway — but we'll be watching for how far this flexibility extends.

Will high prices undermine LNG's long-term growth? Recent market volatility is causing key LNG growth markets like China and Southeast Asia to pause and assess their dependency. Growth remains supported by gas' cleaner footprint than coal, stagnating/declining domestic output, limits on alternative paths to support rapid industrial and electricity growth, and expectations of softer LNG prices by the mid- to late-2020s. But near-term Asian demand erosion caused by record prices and European buying could still morph into longer-term constraints — in line with our lower demand growth scenario. In particular, we're monitoring national policies for changes to energy mix targets (gas downgraded or greater support for coal, nuclear or renewables). We'll also continue tracking spot buying and long-term contracting — especially Qatar's marketing efforts — in key growth markets like China, Pakistan and India, as well as Europe, to signal long-term LNG appetite.

Will CCS and hydrogen fulfill their potential? Cost reductions will be crucial in defining the contribution of CCS and hydrogen versus electrification. We are watching efforts to cut CCS costs through technology advancements and/or scale, and looking for an inflection point in projects moving to FID. We would also see CCS uptake in hard-to-abate non-energy sectors (steel, cement, chemicals) as a positive sign. In hydrogen, we're eyeing the impact of new US and European policies and China's push to rapidly cut electrolyzer costs — but also whether high gas and electricity prices might favor power over hydrogen as an end use. On the flip side, we will be watching whether technology/cost breakthroughs give greater momentum to electrification of long-haul trucking, shipping or aviation, shrinking the role for hydrogen.

How will social attitudes be shaped by the Ukraine crisis? Monitoring "softer" social trends as one indicator of future change has greatly helped our early identification of transition trends. Currently, we're assessing the impacts of revived energy security concerns and high energy costs on fossil fuel versus renewables priorities. The crisis has softened some calls to halt fossil fuel investment, but has prompted some governments to accelerate renewables buildouts and could spur consumer interest in alternatives. US social attitudes toward EVs remain cautious, but shifts around range anxiety and battery reliability could point to faster uptake. Embrace of efficiency and other demand reduction efforts in Europe could drive long-lasting consumption pattern changes, as after the 1973 oil crisis. We continue to watch the impact of extreme weather and a hardening scientific consensus on social and policy momentum, but with the polarization of ESG in the US a wild card.

Energy Intelligence REPORTS

Energy Transition Macro Outlook: Slower Now, Faster Later
War in Ukraine, high commodity prices and shifts in energy policy have broad – and varied – implications for the energy transition… ***click for full report.***

ESG Investing Loses Momentum, But Not Direction
The energy crisis has curbed some of the momentum behind ESG investing, notably in the US. Yet the direction of travel is clear… ***click for full report.***

EV Outlook Strengthens Despite Challenges
A critical shift in consumer sentiment in key markets is propelling EV uptake higher despite pandemic-related pressures… ***click for full report.***

Gas Crisis Threatens LNG's Futurein Asia
Persistent sky-high LNG prices and new competition from Europe are prompting Asia to rethink the role of gas and LNG in its energy future… ***click for full report***

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Energy Intelligence EXPERTS

Alex Martinos
Director, Energy Transition Research
+44 (0)20 7518 2248
amartinos@energyintel.com

Philippe Roos
Senior Reporter
+33 6 2286 3776
proos@energyintel.com

Ian Nathan
Director, Global LNG Research
+1 646 616 0828
inathan@energyintel.com

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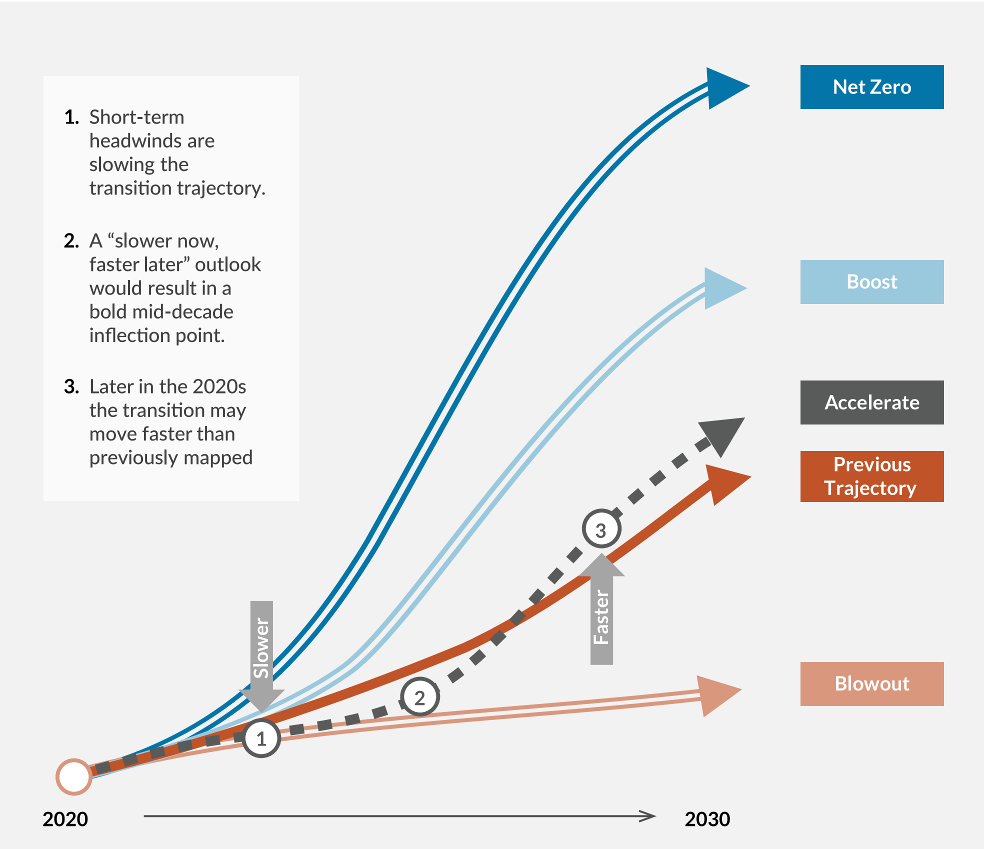
IMPACT ON ENERGY TRANSITION SCENARIOS TO 2030



Source: Energy Intelligence

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Energy Intelligence Premium CONTACTS

Sales:
Geoff Wright
Global Head of Sales & Marketing
+1 646 616 0836
gwright@energyintel.com

Content:
Casey Merriman
Editor, EI Premium
+1 832 687 8770
cmerriman@energyintel.com