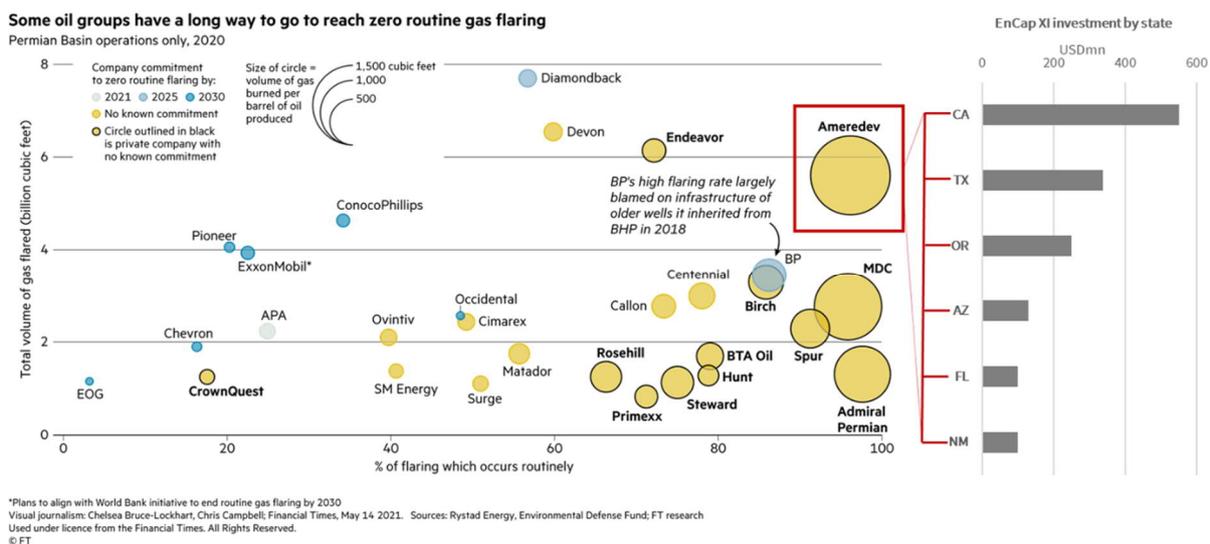


California Flarin'

Ulf Erlandsson (*)

A recent FT article highlights the efforts of private-equity owned Ameredev to achieve an almost perfect batting average for flaring residual fossil gas from its oil production (Figure 1, left, highlighted). **Who are the asset owners providing capital for this flaring effort?**

Figure 1. Left: Public and private companies' flaring in the Permian basin. Reprinted with permission from Financial Times "Private oil companies fall short on cutting flaring." Right: Ameredev/Encap XI fund top-6 investors aggregated by state. Source: Bloomberg, AFII.



Public sources indicate that the key financier is the EnCap Energy Capital Fund XI LP fund.¹ Various public pension funds are the key investors in the EnCap XI fund, with **Californian pension funds playing a dominant role** (Figure 1, right).²

Investments in flaring-intensive oil production are likely to accelerate climate change. A pension fund bureaucrat could argue that such acceleration has some balance sheet benefits by reducing future pension liabilities, especially in fire-stricken states such as California. But we opine that this does not properly reflect a holistic, or indeed legal, perspective on fiduciary duty.

From a purely financial perspective, we also believe the exit values – traditionally the focus of PE investments – on high-flaring ‘assets’ will be in decline. For example, the Maine Employees’ Retirement System (another EnCap XI investor) was recently instructed by the state legislature to divest from securities of the 200 largest publicly traded fossil fuel companies. Figure 1 might just not be a good backdrop for an PE-to-public investor pitch book and subsequent exit valuations.

¹ EnCap is “[The Leading Provider of Growth Capital to Independent Energy Companies.](#)” Other EnCap XI holdings are Sable Bay Energy LLC and Silverback Exploration II LLC. The fund is not fully invested yet. EnCap also provided initial capital commitments for Ameredev as the company was formed in 2015.

² The California State Teachers’ Retirement System (CalSTRS) has the biggest allocation, USD300mn.

Further notes

Flaring is the process of burning fossil gas as a byproduct of oil production, thereby converting methane to carbon dioxide.³ This can lead to some surprising effects, for example, flaring in the Permian Basin (where Ameredev is active) increased due to operational difficulties on the back of the Texas cold-spell in March this year.⁴

The Permian Basin flaring activities are particularly concerning as the area appears to have a significant methane leakage in the flaring process. To quote the IEA:

“The Environmental Defense Fund (EDF) recently released a study from the Permian tight-oil basin noting 11% of flares were unlit or working sub-optimally resulting in more than 3.5 times more methane released than officially reported.” ([“Flaring Emissions”](#), IEA, June 2020)

More detail on Maine’s fossil fuel divestments in [“Main House passes bill to divest state from fossil-fuel holding”](#), Pension&Investmenets, 4 June 2021. We would highlight that although the decision prohibits investments in larger fossil fuel companies’ equity and bonds, it does not prohibit investments in alternative assets, such as private equity in general and the EnCap XI fund in particular.

Holdings data from Bloomberg.

³ For an industry primer on this, consider [“5 things you should know about flaring”](#), Baker Hughes, accessed 9 Jun 2021.

⁴ [“The future of Big Oil flaring in the Permian Basin and the climate challenge,”](#) Hellenic Shipping News, 16 Mar 2021.

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