



# Where do we go from here?

Energy industry leaders provide their predictions for 2021 and beyond

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The calendar has turned to the new year, but the uncertainties of 2020 are still with us. As vaccine supplies vary and new strains of COVID-19 emerge, the fuel industry remains on shifting ground.

On December 8, 2020, DTN hosted an online downstream energy forum. It featured industry leaders who shared the changes they've implemented under COVID-19 and what they expected to be the biggest drivers of decisions in 2021.

Through their perspectives and insights, you'll learn what data to watch and how to position your business to thrive as we very slowly emerge from the pandemic.

## The Panel

### Dan Gordon

Vice president & chief commercial officer, Colonial Pipeline

### Kevin Olson

General manager operations, U.S. Oil

### Jeff Rubin

Director of business operations, Motiva Enterprises

### Terry Tesch

Vice president of sales & operations, R.B. Stewart

### Heather Killough

Senior vice president, DTN (moderator)

## How the pandemic changed the business

The session opened with a recap of the extreme challenges faced in 2020. They were not limited to COVID-19 but also included the most active hurricane season on record and cratered fuel demand. The panelists then fielded a series of questions about how their companies adapted to the different business climate.

The top priority, all agreed, was employee and customer safety. Money can be re-earned, assets bought or sold, but people are not replaceable.

R.B. Stewart's Terry Tesch said that his operations team initially struggled to acquire and share sanitizing products with all of their drivers. They also didn't have the infrastructure set up for remote work, so their IT staff quickly procured laptops and put the necessary software and security in place to enable employees to work from home.

As vaccine production ramps up and available doses increase, it's still critical to make safety standards mandatory. Customers have elevated their expectations of what safe means and will continue to demand they are met, or they will take their business elsewhere.

Jeff Rubin said Motiva shifted their marketing focus to emphasize safety features, such as a contactless payment system. They stood up a new inside sales organization because no one could get on a plane; face-to-face meetings were impossible. While they had some of those plans already underway, the coronavirus accelerated their implementation.

U.S. Oil's Kevin Olson chimed in that the immediacy of these adjustments meant some of their "moonshot" plans had to be set to the side. In a great metaphor, he said, "In our new toolbox, we're taking out the fancy tools. We don't need the Starship Enterprise, we need an F-150." Focusing on the achievable is better than aiming at the aspirational, at least for now. Finding ways to innovate is always needed, but save the larger, riskier capital investments for another time.

## The new normal

The entire world has made changes to nearly every aspect of daily life, and the downstream fuel industry is no exception. The next thing energy leaders need to consider is what changes are permanent and which might be more temporary.

After securing the safety of employees and customers, this is the preoccupying question in strategic planning meetings. Colonial Pipeline's Dan Gordon gave the example of the large migration seen in many big cities, which are losing citizens to suburban and rural communities. Will they come back downtown? If so, why? For work, leisure, or both?

Selling or buying real estate is often the largest investment decision someone makes. And moving a household is disruptive and time-consuming. Just how keen are people on doing that over again a year later to move back into — what? Are the goods and services they used still there? And maybe some in larger metropolitan areas have discovered that mass transit supports their need to visit the city versus driving their vehicle. Businesses have found that employees are just as productive at home, bringing a critical eye to the question of whether or not office space is worth the price.

Rubin noted the amount of demand destruction in the industry; jet fuel is down 85%. "As a refinery, you have to make either jet or diesel." If demand doesn't support one, you need to shift to the other. And with the rise of ordering goods from home, diesel is the play here. That's not to say there's no demand for jet; all those goods have to be transported somehow, and air freight remains the fastest way to move weight across long distances. But there's no denying that tourism and business travel have decreased, while trucking has seen increased demand.

The need to predict where and how fuel demand will recover is critical. Olson indicated that this kind of predictive data is necessary, saying, "Balancing supply and demand will be harder, but with the right data, it will be doable." Each market has its own bubble. Weather, mass transit availability, COVID case counts, and other factors determine where there might be less demand or more. Estimations based on historical seasonal data are not good enough. This time is truly different. There will be entirely new indicators to track, like school districts with in-person classes, vaccination rates, and dining capacity limits. The more data you have, the more successful your decisions will be, but the heart of the issue remains knowing where there is demand.

## The Biden administration

The new Biden administration is top-of-mind and fueled several inquiries on how the industry regulatory landscape might change. Gordon gave a direct challenge to the industry to be proactive in finding fair and equitable paths to accomplish everyone's shared goal of a cleaner environment while supplying the energy we need. "If changes are forced on us by governments, then shame on us for not claiming a seat at those tables and proactively guiding our future," he said. In the first weeks of President Biden's term, we've already seen several executive orders regarding pipelines and NatGas procurement, among other climate initiatives. Depending on how the rules of the Senate change, there will likely be even more consequential impacts to the downstream fuel industry. This emphasizes Gordon's point to earn a seat at the table and engage in the conversation.

## Learning valuable lessons

When asked what lessons 2020 taught him, Tesch replied, "What did we learn? That there's no rule book. We know how to deal with a hurricane, we know what backups and levers to use; COVID-19 is something entirely different." He spoke of the need to plan for multiple contingencies. "What if demand goes down 50% of the last 50% reduction? What do we do then? Preparing for those types of scenarios has been our lesson." Tesch also emphasized the importance of focusing on business

fundamentals during such a challenging time. Since they made the decision not to lay off people, there was suddenly no margin for error. They couldn't afford an accident or another type of mistake. With the downward pressure we're all facing, wise operators will ignore the noise and concentrate on executing business-critical tasks.

## After the disruption

Looking to 2021, the panel examined everything that has changed as a result of COVID-19. While everyone anticipates getting back to the activities we used to take for granted — such as dining at a restaurant, attending professional sporting events, or going to the movies — there will be some changes that stay, well, changed. Rubin thinks there will be a continued emphasis on remote communication. "Zoom/Teams aren't going away," he said. "I wouldn't be surprised to have temperature checks when entering buildings. More companies will adopt these types of safety measures."

Gordon said that by the end of 2021, we'd see policies established that indicate decisions were made not as a response to COVID-19 but rather as the result of permanent changes to the marketplace. He said that energy leaders "need to make sure there's an appropriate market structure to deliver benefit to our customers."

When it comes to terminal operations, Rubin said the focus is on touchless experiences. Drivers used to go through an in-person certification. "We've now switched to an online-only certification process," he explained. It's unlikely that terminal operators who made the switch to an automated information-sharing platform would suddenly forsake the efficiencies gained, especially after investing in the technology. Up and down the supply chain, leaders who automate their communications to the fullest extent possible will reap the most rewards, eliminating delays.

What about home delivery and curbside pickup in the retail industry? "The jury is still out," Rubin said. "While grocery stores may continue that option, other industries may revert." However, he didn't rule out an Amazon Go-type retail experience with artificial intelligence, cameras, contactless payment, no cash register, and few or no employees. While this is yet another economic sector where automation can unlock opportunities, when it comes to direct consumer service, there's still a large portion of the population that feels more comfortable with asking a human for help or seeing a product in-person before buying.

What about preparations for 2021? What decisions should fuel industry leaders make? Olson advised leaders, "Take a hard look at where you have value to provide this new marketplace. "Maybe there's an asset [in your organization] that should be sold/shut down, while another asset is expanded. Pick your spot in the supply chain wisely, and you'll benefit."

## What's the upside?

As devastating as 2020 was for just about everyone, savvy leaders have asked themselves: Has COVID-19 provided unique opportunities we can take advantage of? Gordon thinks this is a good time to reframe the story of energy production in America. "We haven't done a good job explaining [our] value prop to the American public," he said. "The pandemic gives us the opportunity to change this narrative."

As far as industry opportunities during COVID-19, Gordon said, "We're seeing refineries closing down. Some companies are using this time to move to a carbon-neutral energy footprint." He reiterated that many had been moving in that direction already, but crushed consumer demand helped them push past any barrier towards that future. Indeed, the overarching business trend is moving, slowly but inexorably, towards sustainable energy development. As indicated earlier, the future of automobile production is electric vehicles. GM — the second-largest automobile manufacturer in the world — just dropped a bombshell: they will no longer produce internal combustion gasoline cars after 2035. If that sounds far away, consider that this fall is the 20th anniversary of the 9/11 terrorist attacks. Time does indeed fly, so the energy industry must take the opportunities provided by the "pandemic pause" to lay a foundation for success and avoid being unprepared.

## Decisions regarding investments

In laying that foundation, Gordon advised, "It's better to build than buy right now." As we tackle broader industry issues, we can't lose focus on those closest to day-to-day operations. Companies that build on an established foundation of success to expand — instead of acquiring whole new foundations — will be better positioned to request and receive capital when they need it. In other words, now is not the time to over-extend your business with acquisitions.

In the future, the industry will see smaller, boutique opportunities pop up. In the new normal, persuading a buyer to sign a 10-year deal is a tall order. It's better to focus on opportunities that allow you to succeed with lower risk. Yes, you'll need more of them than the huge deals of the past, but given our challenging landscape, hanging your business on one or even several large deals could prove catastrophic. Olson put a fine point on it. At the end of the day, "You have to know you can get rid of product," he said.

Right now, the world is changing so fast, but basic economics will still drive the decisions to make changes. There is a maxim in fuel marketing that you never have enough storage at the moment you want it. But in reality, we have areas of the country where there is, in fact, too much product.

What about exports, then? If we have a supply glut, where can marketers ship products? Tesch answered that question with one of his own, "Where is the supply, and what does the offtake look like? It's easy to say 'we're gonna export x number of barrels,' but does the market structure there support your export goals? Rationalization is going to be brutally efficient." If your intended receiving market can't distribute the product, what are your options? The low-to-zero margin for error in this era of crushed demand will punish those exporters who fail to do their due diligence.

## How convenient is your convenience store?

Moderator Heather Killough asked the panel to consider the future of retailers, and how they can position themselves for success.

Tesch asserted that one thing the pandemic has brought to light is the importance of cleanliness. "That's not going away. It's no longer a consumer demand — it is their expectation," he said. "Those convenience stores that can't adapt [to this new expectation] will go away; they'll be a target of M&A." Indeed, has any of us gone into a brick and mortar store and not considered who might've last touched the surface on which we're placing our soda and chips? C-stores that invest in superior cleaning will be well-positioned for 2021 and beyond.

The retailers that adapt to the new landscape with consistency will survive. Olson brought up that "Some of the bigger [convenience stores] are 'destination' stores; they don't even have to be 'on the intersection,'" because their superior service and offerings are worth the extra time for consumers. Post-pandemic, the old real estate priorities of "location, location, location" may not matter when consumers are willing to drive a little out of their way to avoid perceived danger. Since personnel and cleaning supplies are less expensive than prime real estate, this would seem an easy hurdle to clear for retail owners/operators.

### Need more?

In conclusion, there was a lot of wisdom dispensed in a short amount of time. For more details — and to hear some of the other topics visited — you should check out the full webinar recording, available on-demand on our [energy insights page](#).