

Research @ Citi Podcast, Episode 44: The Great Energy Expansion

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Transcript:

Scott Gruber (00:00)

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Anne Malone (00:19)

Hi, everyone. Welcome to the Research @ Citi podcast. I'm Anne Malone, the North America Head of Equity Research at Citi.

I am pleased to have joining me today Scott Gruber, our Senior Analyst at Citi Research, leading the team covering the U.S. Exploration and Production and U.S. Oilfield Services and Equipment Sectors at Citi. He's also the Global Super Sector Head for Natural Resources and Climate Tech.

Today, we're going to be discussing Citi's Natural Resources Conference, Aug. 12 to 14 in downtown Las Vegas, as well as major trends in energy sectors that Scott covers. Welcome, Scott. It's good to see you.

Scott Gruber (00:54)

Thanks for having me.

Anne Malone (00:55)

OK, so we have the conference coming up in August. It's almost upon us. What's the lineup? What's the format?

Scott Gruber (01:02)

So this is the first year we're doing our Global Energy Conference in Las Vegas. It's really a combination of two previous conferences: our former Boston Global Energy Conference, which we would hold in the spring, and our Midstream and Energy Infrastructure Conference, which we would hold every August in Las Vegas.

We're really trying to build on the success of that conference and expand it to now be a global conference. And we had a great turnout. We have over 100 corporates participating, really across the energy value chain. And this includes both public and numerous private companies coming to talk about what they're seeing in the space.

The format for the conference is probably a bit different than other energy conferences. We're going to start with Midstream and Energy Infrastructure on Tuesday. That's the bedrock of the conference. And then we're going to do the Upstream side of energy on Wednesday and then Utilities and Renewables on Thursday. So, it should be a really great lineup. Three days, a lot of education, a lot of insights coming the way of investors, and hopefully some fun as well.

Anne Malone (02:00)

A new, hipper location. That's good. And I like how it's organized.

We don't usually think about — well, we haven't in the last couple of years —excitement and energy. Not two words that we put together usually, but it's coming back into energy. So, you can't talk about an industry these days without bringing up AI. How does that fit into the energy complex now?

Scott Gruber (02:19)

It's actually the most important theme in the marketplace today, and it's the most important theme in energy.

Anne Malone (02:26)

So you're not left out. That's good.

Scott Gruber (02:28)

No, thankfully.

But look, it's an interesting time for energy and the AI theme. Last year, I think the market came to appreciate just how much power we're going to need to fuel all the data centers and run all the chips. And so you started to see the equity multiples expand because of that theme within energy.

This year, we're actually starting to see the projects unfold. We're starting to get tangible movement on projects, contracts. So we're starting to see how this theme is going to translate into an expansion of earnings power across the complex: who's going to benefit the most, who needs a tweak to their strategy. So it's really an interesting time to be digging into the AI theme for energy.

Anne Malone (03:13)

And what are the challenges? Build it and they will come, but what are the hurdles or the challenges to tackling this?

Scott Gruber (03:23)

Yeah, they're numerous. The utility industry is not known for moving quickly, right? I mean, for good reason. These are big projects. They're complex projects. You have to have grid stability on a go-forward basis.

And so there's been a lot of work done in the background around how do we safely and constructively expand the power-generation capacity in the U.S. while also just meeting the general low growth we're seeing: you know, industrial and commercial, right?

We have to have a safety margin for swings in demand while we're adding a lot of, call it baseload demand growth. And so the regulators have had to take a new approach to this challenge. It's a bigger and different challenge than they've had in the past, and they're starting to figure that out.

We're seeing things like Senate Bill 6 in Texas get passed. It's starting to provide some clarity on the path forward, and that in itself is helping these projects go forward on the utility side.

And then you see it ripple across the industry, right? You see the projects for gas pipelines, for instance, go through because we know the trajectory of regional demand. And so, like I said, it's a very interesting time because the whole complex is getting its hands around, "How do we grow power generation in a thoughtful manner?"

Anne Malone (04:40)

And where does the market come down on this debate? Does it believe in smooth sailing — it can handle these challenges — or what's the debate there?

Scott Gruber (04:50)

There's debate around the magnitude of the growth of the next couple of years. There's a debate on which generation technology wins in that growth profile. There's a lot of interest in nuclear. We're seeing a few nuclear plants restart. There's a lot of interest in small-scale nuclear — SMRs. And certainly, they seem like they're going to have a big role to play. But they take some time to start up. We want to make sure we're safe, you know, with our nuclear expansion.

Renewables continue to grow. Natural gas fire generation can be quick to respond, both once it's up and running, but also, you know, fairly quick lead time, especially relative to nuclear. So that seems like it's going to have a role to play, too.

Generally people will still want to see coal phased out. It's the dirtiest of fuels. So, we're trying to do that while we grow our generation capacity, which adds to the challenge. But I think the best way to think about it is probably everything except for coal will win, right? I mean, this is an energy expansion, as we like to talk about. So, we need more energy and it's going to take efforts along a number of verticals to get there.

Anne Malone (05:56)

And this administration seems very interested in making this happen successfully. Is it up to the challenge?

Scott Gruber (06:03)

Yes. This administration wants to take down the red tape. They want to ease the pathway to expansion, generally, for industry in the U.S. But they're big proponents of data centers and AI, and they want to make sure that we don't face constraints on power and other things such as water.

And so, the red tape does seem to be easing, which is helping. The state regulators are trying to mobilize quickly because they don't want to be an impediment to data-center development in their own states. They don't want to see those data centers get located elsewhere where regulation is moving more swiftly.

So the regulators are trying to move quickly. We do sense greater urgency on the part of politicians and on the part of regulators to make sure the U.S. can be a leader in AI and we don't face real critical constraints.

Anne Malone (06:52)

Whenever there's transition in a sector — and, wow, transition with a capital T — they're always, “How do we pay for it? What is the output from that? What's the ripple effect?”

So in the note you guys wrote, you talk about the rise of M&A again. I don't know how long it's been since that was a major theme. What happens there with being able to afford all of this build and what does it do to mergers?

Scott Gruber (07:17)

We've seen a few deals on the utility side where companies are trying to gain more exposure to hot growing sectors. So that's been a theme.

Probably the bigger theme on the consolidation side is what we're seeing in the Upstream Oil and Gas sector. That's largely driven by the maturation of the sector. Shale came on the scene in the 2000s, tremendous growth in the 2010s. And now the industry is in a more mature state. Most companies are targeting kind of flat oil-production growth from here. And it's much more about, “How do you squeeze as much cash out of your producing assets?”

Scale helps in that regard, right? Getting bigger helps improve your operational efficiencies. And so we're seeing this continued consolidation of the upstream industry, and we don't think it's going to stop. We see still a lot of runway for consolidation in the upstream industry.

Anne Malone (08:14)

And when you're that squeezed, you're trying to get the cash from assets. Are there other innovations in technology, though, that help with any of this?

Scott Gruber (08:24)

Oh, certainly. They're trying to deploy technology as rapidly as possible. The energy industry historically was not known for swift technology adoption, because you're in remote locations, you're operating in the desert: west Texas, you know, or miles offshore. It's dangerous. So you don't take a lot of risk, right? Because if things go wrong, they blow up. Right? So —

Anne Malone (08:46)

Literally!

Scott Gruber (08:48)

— literally, unfortunately.

And so, you know, it's a risk-averse industry. But shale is a bit different in that it is more manufacturing. They call it “mowing the field” because you just drill a well, then you go to the neighbor and you drill another well, and another well, and another well.

And so it does lend itself to more swift technology adoption in that regard because the projects are smaller and they're repetitive. And so they are trying to deploy technology as quickly as possible.

It's interesting: You know, when you talk about AI at the edge, so applying AI in remote situations, the energy industry has tremendous opportunity. So, there is a movement to incorporate more AI in the oil patch. You know, the bigger companies tend to be leaders on that front because they have bigger R&D budgets. And so it does help spur greater consolidation because as you can figure out ways to do things more efficiently in your own operations, going and buying a smaller peer who has not deployed that technology and those techniques, that's the upside, right? So it is also spurring consolidation.

Anne Malone (09:46)

It all circles back to AI. Any other themes that you expect to be addressed while we're in Vegas?

Scott Gruber (09:55)

Beyond AI deployment in the oil patch, capital efficiency continues to be a major theme in the industry. It's beyond technology into more traditional techniques on how we drill and develop shale resources. The industry just keeps getting better.

So, there's a big question: When does the improvement slow down? We've not seen a real slowdown this year. We've been expecting pretty healthy efficiency gains. Utilizing enhancements to traditional techniques, we think that continues into '26 and '27. So

that'll be a hot topic because it impacts the economics for the producers. It also impacts the economics for the service companies as well.

And then, you know, there are other technologies on the power-generation side. We have a great lineup of nuclear companies. That's a hot topic that Vik Bagri has been all over for the team. But, you know, there's going to be a lot of discussion around the timing of adding nuke, around how we address the fueling situation. That's a hot topic that we expect to get a lot of airplay at the conference.

Anne Malone (11:06)

My, how things have changed that we're back to talking about nuclear.

Scott Gruber (11:10)

Yes.

Anne Malone (11:11)

So, back to Vegas for a minute, specifics on the conference. So large crowd, plenty of privates up and down the chain. Any interesting speakers or events to highlight?

Scott Gruber (11:23)

Yeah, we kick things off with a poker tournament. That seems appropriate.

Anne Malone (11:27)

OK.

Scott Gruber (11:28)

In addition, there'll be numerous dinners throughout the event. Spiro Dounis, our Midstream analyst, is hosting a Top Golf event, which will be fun. So yes, some good entertainment and an opportunity to interact with managements at these events as well.

Anne Malone (11:44)

I was going to say, there are participants' events, True, right?

Scott Gruber (11:48)

Exactly.

Anne Malone (11:49)

Before we head out, anything else outside of the conference, any themes that are coming up in your space that we ought to make sure we cover?

Scott Gruber (11:57)

Good question.

In my sector, those technology improvements have been to the detriment of the Oilfield Services companies because we've been able to squeeze more oil and gas out, with lower utilization of equipment in the oil field.

One theme we have been seeing is we think the negative revisions for that group are starting to slow down. We think we're getting kind of close to the bottom for this revision cycle. Historically, revision cycles for Oilfield Services companies are about two years in length. We're kind of 18 months into this one. And so it does seem like we're finding some stable footing for the services industry, which is good.

There's still a need to absorb the incremental barrels OPEC is putting on the marketplace. That's a hot topic of debate in terms of the oil macro. They've increased production all year long in those incremental barrels, and it takes some time to get to the market. So they'll still be flowing into the marketplace for the rest of the year.

Our commodities team is anticipating some softness later this year. And then in '26, we'll be absorbing those barrels. But there's a hot topic of debate around the demand and the pace with which we absorb those barrels. So we expect that to be a hot topic on the sidelines of the conference. That's good coffee discussions, dinner discussions.

Anne Malone (13:16)

Whenever you gather a bunch of energy folks together, I assume that is part of it. Thank you so much, Scott. Appreciate the conversation.

Scott Gruber (13:22)

No, I appreciate it, Anne. Thank you very much.

Anne Malone (13:24)

This podcast was recorded on Aug. 7, 2025. Be sure to join us for our next Research @ Citi podcast or feel free to explore our previous podcasts, all of which are available on this channel and other channels as well. Thanks so much, everyone. See you in Vegas.

Disclaimer (13:39)

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