Will Warren Buffett’s Texas Power Bet Pay Off?

Description

The struggle against the elements has been an important humanity’s evolution throughout history. From the discovery of fire to taming the rivers (using dams), we have found several different ways of using nature to our advantage. But we are still woefully unprepared to take nature head-on in many areas.

In February, Texas, the second-largest state in the U.S., suffered unprecedented power outages due to a cold spell that left about four million people without electricity for about a week. The state gets 50% of its power from natural gas-based power generators, and the gas couldn’t reach the power plants through cold/frozen pipelines.

It was a challenging time for the state, and the relevant officials and stakeholders are already working on plans to prevent this from happening again.

Emergency power supply

Berkshire Hathaway’s energy wing has supposedly floated a proposal for establishing emergency power plants to keep Texas’s power grid supplied if its native sources are unable to during unprecedented cold spells in the winter. These plants would cost about US$8 billion and would be powered by natural gas. The cost would be picked up (probably in part) by the consumers (with different slabs for residential, commercial, and industrial consumers).

According to the proposal, Berkshire Hathaway is expected to earn a 9.3% rate of return on this investment. Warren Buffett made a major energy bet ($10 billion invested in **Dominion Energy**) during the pandemic, which might indicate that Buffett still believes in natural gas.

The proposed power plants are for emergencies only, and they won’t “enter” the local power market as a new player. Proponents of Joe Biden’s green initiatives, which aim to rid the country of fossil fuel in the near future, might not look favourably upon this proposal. Texas is also one of the states that is switching to renewable energy sources at a rapid pace.

A natural gas stock

If you believe that natural gas might still have a bright future, you might consider adding **TC Energy** (TSX:TRP)(NYSE:TRP) to your portfolio. The company is responsible for the supply of nearly one-fourth of the natural gas consumed in North America. If the consumption is going to go up, the company might see its profits rising, and its stock following right behind.

The stock has risen over 14% from the start of this year, but it's still about 21.5% down from its pre-crash peak. It's also attractively valued and offers a juicy 6% yield. If it takes off from its current valuation and grows beyond its pre-pandemic height, you might also be able to see some capital gains in addition to its generous dividends.

Foolish takeaway

In North America, the attitude towards fossil fuel has been slowly shifting in the last few years. More and more power producers are exploring renewable energy options. But that doesn't negate the fact that natural gas still makes up 40% of the power generation sources in the U.S., and it might take the country several years to grow out of this dependency. Till then, natural gas infrastructure companies like TC Energy might stay profitable.

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