

# **OPAL Fuels Inc. (OPAL) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 9, 2024 Friday

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**Length:** 7772 words

**Byline:** SA Transcripts

**Body**

OPAL Fuels Inc. (OPAL)

Q2 2024 Earnings Conference Call

August 08, 2024 11:00 AM ET

Company Participants

Todd Firestone - Vice President, Investor Relations

Adam Comora - Co-Chief Executive Officer

Jonathan Maurer - Co-Chief Executive Officer

Scott Contino - Interim Chief Financial Officer

Conference Call Participants

Matthew Blair - TPH

Paul Cheng - Scotiabank

Ryan Pfingst - B. Riley

Adam Bubes - Goldman Sachs

Alex Kania - Marathon Capital

Thomas Meric - Janney Montgomery Scott

Presentation

Operator

Good morning and welcome to the OPAL Fuels' Second Quarter 2024 Earnings Call and Webcast. After the speaker's presentation, there will be a question-and-answer session. [Operator instructions]. As a reminder, this event is being recorded.

I would now like to turn the call over to Todd Firestone, Vice President of Investor Relations to begin. Please go ahead.

Todd Firestone

Thank you and good morning everyone. Welcome to the OPAL Fuels' second quarter 2024 earnings conference call. With me today are Co-CEO, Adam Comora and Jonathan Maurer; and Scott Contino, OPAL's Interim Chief Financial Officer.

OPAL Fuels released financial and operating results for the second quarter of 2024 yesterday afternoon and those results are available on the Investor Relations section of our website at opalfuels.com. The presentation and access to the webcast of this call are also available on our website. After completion of today's call, a replay will be available for 90 days.

Before we begin, I'd like to remind you that our remarks including answers to your questions contain forward-looking statements, which involve risks uncertainties and assumptions. Forward-looking statements are not a guarantee of performance and actual results could differ materially from what is contained in such statements.

Several factors that could cause or contribute to such differences are described on Slides 2 and 3 of our presentation. These forward-looking statements reflect our views as of the date of this call and OPAL Fuels does not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this call.

Additionally this call will contain a discussion of certain non-GAAP measures. A definition of non-GAAP measures used and a reconciliation of these measures to the nearest GAAP measure is included in the appendix of the release and presentation.

Adam will begin today's call by providing an overview of the quarter's results and list the highlights and an update on our strategic and operational priorities. John will then give out commercial and business development update, after which Scott will review financial results. We'll then open the call for questions.

And now, I'll turn the call over to Adam Comora, Co-CEO of OPAL Fuel.

Adam Comora

Good morning everyone and thank you for participating in OPAL Fuels' second quarter 2024 earnings call. Our second quarter results were solid and in line with our expectations. A number of factors are driving our growth outlook for the remainder of the year including a strong end market, which we've taken advantage of by selling forward the majority of our expected RIN sales at favorable pricing, accelerating production growth from our operating facilities, our Sapphire and Pulp RNG projects remaining on schedule, and finally, growth in our fuel station services segment.

Adjusted EBITDA for the quarter was approximately $19 million sequentially higher versus the first quarter as we've continued to see improvements across our business segments driven by higher RNG production, increasing throughput of RNG in our dispensing network, and improved margins in fuel station services. We expect continued sequential growth over the balance of the year and are maintaining our 2024 adjusted EBITDA guidance of $90 million to $100 million.

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One contributing factor to the sequential growth, which we are happy to announce is that our Prince William project has received EPA certification and we expect to begin selling RINs from this project in the third quarter. We remain on track to bring our next two landfill RNG projects Sapphire and Polk County online as expected in the third and fourth quarters respectively.

We're executing on our growth objectives and are excited that construction has begun on our 16th RNG project at the Burlington County New Jersey landfill. This project is the second with our joint venture partner South Jersey Industries and represent 0.46 million MMBtus of annual design capacity.

Combined with the Cottonwood Project announced last quarter we have now placed 1.1 million MMBtu of new RNG production annual design capacity into construction this year and are maintaining our guidance of placing at least 2 million MMBtu of new RNG production into construction for 2024.

Our fuel station service segment continues to perform and grow in line with our expectations supporting our upstream RNG projects with dispensing in the highest value transportation fuel offtake market.

We are maintaining fuel station services adjusted EBITDA guidance of 75% to 90% growth in 2024 compared to 2023. I also wanted to mention a change to our full year RNG production outlook, which is now expected to range between 4.0 million and 4.4 million MMBtu versus previous guidance of 4.4 million to 4.8 million MMBtu, primarily driven by the ramp-up of our most recent facilities which we expect to be short-term in nature.

Finally, we continue to believe there is a great opportunity for our industry to expand bipartisan support including renewable electricity produced from biogas. It is important to remember what we do. We capture harmful methane emissions from decaying organic waste in place and convert them into productive and low-carbon energy products that utilize existing pipeline and electricity grids.

We believe OPAL is well-positioned to continue to be a leader in the development operation and distribution of these low carbon intensity fuels utilizing proven technologies and a proven track record.

With that, I'll turn it over to Jon. Jon?

Jonathan Maurer

Thank you, Adam and good morning everyone. OPAL Fuels continues to execute on building and operating reliable RNG production facilities and fueling stations. Operationally, second quarter production results were in line with our expectations. RNG production was 0.9 million MMBtus for the three months ended June 30, 2024, a more than 50% increase year-over-year.

As Adam mentioned, we're making progress on our strategic growth goals by putting projects into construction like Burlington this quarter in Cottonwood last quarter and we're also executing by moving construction projects into operation. We currently have nine operating RNG projects and seven RNG projects in construction. Construction of our new projects is proceeding well and they continue to be on schedule.

We expect to bring online three large landfill RNG projects during 2024. We've already brought online the Prince William RNG project and the Sapphire project is mechanically complete and in commissioning, on track for a third quarter completion date. And Polk County continues to be on track for a fourth quarter completion date. We expect to exit the year with 11 RNG facilities online, representing an annual design capacity of 8.8 million MMBtu compared to 2.3 million MMBtu at year-end 2021, more than tripling over the past three years.

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Atlantic, our first SJI joint venture RNG project, which we put into construction in the third quarter of 2023, is progressing and we continue to expect it to begin commercial operations in the third quarter of 2025. Atlantic is expecting to contribute 0.3 million MMBtu of annual design capacity net to OPAL. Construction at our 100% owned Cottonwood landfill RNG project is also progressing well and represents 0.7 million MMBtu of design capacity net to OPAL. We expect the project to begin commercial operations consistent with recent project time lines.

Finally, we are happy to have announced the start of construction at the Burlington RNG project. As mentioned, this project is the second RNG conversion project with our joint venture partner, South Jersey Industries and represents 0.46 million MMBtu of annual design capacity for our 50% ownership and helps us progress towards our goal of putting 2.0 million of MMBtu of design capacity into construction this year. Industry tailwinds continue to support OPAL's mission. We are seeing demand strengthen across end markets.

With that, I'll turn it over to Scott to discuss the quarter's financial performance. Scott?

Scott Contino

Thank you, Jon and good morning to all the participants on today's call. Last night, we filed our earnings press release which details our quarterly results for the quarter ending June 30, 2024. Our 10-Q will be filed tomorrow.

Looking at second quarter results. RNG production increased to 0.9 million MMBtus from 0.6 million MMBtus in the second quarter of 2023. The increase is largely due to both the Emerald and Prince William RNG projects contribution to production volumes. Revenue in the second quarter was $71 million as compared to $55 million in the second quarter of 2023. The main driver for the increase in revenues was the timing and pricing of environmental credit sales, including both RNG fuel and fuel station services where we dispense all of the RNG for our projects, including our joint venture projects, as well as other third-party RNG supplies. OPAL's share of revenues from equity method investments for the quarter was $11.2 million as compared to $2.1 million in Q2, 2023, which is not included in revenue as reported on the income statement.

Net income for the second quarter was approximately $1.9 million as compared to $114.1 million in the second quarter of 2023. The difference was primarily driven by the gain last year from the deconsolidation of our Emerald and Sapphire projects. Excluding this onetime gain, our adjusted net loss for the second quarter 2023 was $7.8 million.

Adjusted EBITDA was $18.9 million in the second quarter as mentioned compared to $5.1 million in the second quarter of 2023, partially driven by the timing of environmental credit sales. A reconciliation to GAAP results is provided in our earnings release from yesterday and in our investor presentation updated this morning on our website.

The Fuel Station Services segment revenues were $39.3 million for the quarter, as compared to $30.0 million in the second quarter of 2023. The increase in revenues was primarily the result of increased RNG marketing fees, concurrent RIN and LCFS sales and improved margins. Renewable Power revenues were $12.2 million for the quarter compared to $14.5 million in the second quarter of 2023. This decrease was primarily due to the Emerald and Prince William RNG facilities, which are using gas that was previously utilized in renewable power facilities.

In the second quarter, capital expenditures were approximately $28.5 million, which includes approximately $5.6 million relating to equity method investments and approximately $7.7 million associated, with downstream stations. Our senior secured credit facility provides up to $450 million of term loans over an 18-month draw period and $50 million of revolving credit.

As of June 30 2024, approximately $211.6 million was drawn down on the facility and we have utilized approximately $13.7 million of our revolver availability to issue letters of credit. As of June 30 2024, liquidity was approximately $302 million consisting of $275 million of availability under the credit facility and $27 million of cash, cash equivalents and short-term investments. We believe our liquidity and anticipated cash flows from operations are sufficient to meet our existing funding needs.

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We are maintaining our 2024 guidance, except for RNG production, which is expected to be 4.0 million to 4.4 million MMBtus compared to our previous range of 4.4 million to 4.8 million MMbtus, primarily driven by the ramp-up of our most recent RNG facilities.

I'll now turn it back to John, for concluding remarks.

Jonathan Maurer

In closing, we are pleased with this quarter's results. We remain committed to furthering OPAL's vertically integrated mission, together with our partners, to build and operate best-in-class biomethane capturing conversion projects that deliver industry-leading, reliable and cost-effective low-carbon intensity energy products that displace fossil fuels and mitigate climate change.

And with, that I'll turn the call over to the operator for Q&A. Thank you all, for your interest in OPAL Fuels.

Question-and-Answer Session

Operator

[Operator instructions]. Our first question comes from Matthew Blair with TPH. Your line is open.

Matthew Blair

Thank you and good morning. I guess just in regards to the guide. So you maintained the full year EBITDA guidance, but the RNG fuel production numbers coming down. Could you talk about the moving parts there? And what's the off, why is unit profitability I guess coming in higher than you expected? Thanks.

Adam Comora

Yes. Hey, good morning. This is Adam Comora here and I appreciate the question. So on high level, the math when we gave our initial guidance of 4.4 million to 4.8 million MMBtus of production and using a $3 RIN, we had our adjusted EBITDA guidance of $90 million to $100 million. And you can see in that production spread, between 4.4 and 4.8 million about $400,000 leads to about a $10 million adjusted EBITDA between the low end and the high end. And we also had guided folks that every $0.25 in a RIN price move, would be about $12 million of adjusted EBITDA when we were giving out the sensitivity in our initial guidance.

So if you think about our new production range being $400,000 lighter than what the original guidance was and the RIN price being stronger than our original guidance, and our forward sales position where we've sold forward the majority of our -- the vast majority of our RIN production for this year, you can see that the RIN price that we'll achieve for the year will basically offset where that production shortfall came from. We had guided folks that a $0.25 written price move was a $12 million move, in the adjusted EBITDA.

Matthew Blair

Okay. Sounds good. And then, Adam, are you seeing any incremental opportunities for selling RNG into non-transportation markets? I know in the past OPAL, thought that the utility market just doesn't offer enough value. You don't get paid for the full RIN, but what about like any other markets shipping or chemical? Because there are any other opportunities to monetize RNG?

Adam Comora

Yes. Thanks, again for that question. There certainly are increasing opportunities and we are seeing new end markets continue to develop and quite frankly strengthened from a demand perspective for RNG. And marine fuel is one that I think is or we think is particularly interesting as we're seeing a lot of ships being delivered that can run off of renewable methanol. And certainly there are some export markets over to Europe that we think will develop as well. I know there are some regulatory matters that are still being figured out in terms of tracking RNG to export over to Europe.

And at this point, we think that there are great applications for RNG in marine fuel and we think that there's going to be continued interest there. And the voluntary markets here in the US, I know some folks are contracting out to sell their RNG at fixed price contracts there are some California utilities that are really interested in purchasing it and some others as well.

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I would say that the discount to the transportation fuel market still seems too great for us. So we have not yet engaged in those other end markets, but we think that they're going to continue to develop pricing likely will continue to rise there to effectively try and procure or entice folks away from the transportation fuel market.

So we continue to see all sorts of interest in RNG, and I know folks are a little bit longer out talking about renewable hydrogen or SAP. But at this point we still feel like the discount is too great versus transportation fuel and are continuing to pursue the transportation fuel offtake market. But those markets are developing and we are keeping a close eye on them, and I do think they will be part of our portfolio mix just not yet.

Matthew Blair

Sound good. Thanks, Adam.

Operator

Thank you. Our next question comes from Paul Cheng with Scotiabank. Your line is now open.

Paul Cheng

Thank you. Good morning, guys. Adam and Jonathan, I have two questions. First, maybe it's a new bit from a visional strategic standpoint. As you grow your RNG upstream production that's the business strategy is that to grow your service station business that intend them or keep tests that you keep relatively a balanced portfolio between upstream and downstream, or that you say, okay, I mean you have sufficient scale in the downstream in the service station and then the industry also have enough and we really don't need to grow that, and so we will see more towards into the upstream over time. So what's the business strategy from that standpoint? That's the first question.

The second question is, I have to apologize a little bit of the detail. On the second quarter, your LCFS sales price of $100 is actually up sequentially. But if we're looking at the industry, actual benchmark for LCFS price is down. So how is the mechanic work in here? Thank you.

Adam Comora

All right. Great, Paul. I'll take the first question and then John will talk about our offtake contract in the LCFS market. So I believe the first question was how are we viewing the downstream distribution and marketing business and fuel station business in conjunction with our upstream. And I will say, we are extremely excited on both the upstream development of those RNG assets and the downstream fuel station business.

The fuel station business for OPAL is attractive in its own right. We're achieving good returns on capital on fuel stations we own with fuel purchase agreements, long-term tenure in nature fuel purchase agreements for those stations, and we have a very profitable business to build and service those stations.

So even if RNG was not part of the picture, we like the growth outlook for our fuel station service business and we'll continue to grow that business even if we are taking our RNG and finding other offtake markets. It just so happens that there is that terrific strategic tie-in with our upstream business. And so we're seeing great opportunities to deploy capital both in new RNG projects and the downstream fuel station business.

And quite frankly if you went back 10 years there was a lot of growth experienced by OPAL Fuels building fuel stations and servicing those fuel stations just for the commodity price differential of CNG versus diesel fuel. And with that 15-liter engine, we see a lot of opportunities even with just the economics of CNG versus diesel. So we think that's going to be an attractive place for us to continue to invest and grow that business and see a lot of conversion potential for the fuel station service business.

Paul Cheng

Adam, do you have a CapEx or the number of station growth metric you can share per year over the next several years?

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Adam Comora

Yeah. I think what we do -- well we don't give guidance out past 2024. But we do provide detail in our CapEx for how much is being invested in the fuel stations versus the RNG projects. Again the vast majority of the CapEx that we spend is on new biogas capture and conversion projects. I think it's somewhere in the 80-plus percent range. That likely will continue, but we do give it at least on a historic basis in our filings.

Jonathan Maurer

And the average price of RNG projects obviously is commensurately larger than the average price of the fueling station projects as well. Paul, turning to your LCFS question. We get LCFS credits principally from two sources. One is our Sunoma Dairy project in Arizona. And there we have an offtake contract that has a floor price of $100 for the credit. So we enjoy a $100 sale price there as long as the price is below that and that's currently the situation.

Adam Comora

Yes. Just a follow-up there. That contract goes out for multiple years. So that $100 floor is in place for...

Jonathan Maurer

Another 4.5 years.

Adam Comora

Yes.

Jonathan Maurer

So – and then the other place we get our LCFS credits is from our downstream dispensing where we get a portion of the credits as a marketing fee for low CI projects that we dispense into California. And they're typically we're recognizing those credits at market prices and those market prices have been in the $45 to $50 range most of the year.

Adam Comora

Yes. And I think in the second quarter we did not sell at those prices. So we've been holding those credits in inventory.

Jonathan Maurer

But they're recognized at that price.

Adam Comora

Recognizing.

Paul Cheng

Perfect. Thank you. Really appreciate.

Adam Comora

Sure.

Operator

Thank you. Our next question comes from Ryan Pfingst with B. Riley. Your line is open.

Ryan Pfingst

Hi. Good morning, guys. Thanks for taking my questions. Maybe just a follow-up on CapEx. A couple of months ago we spoke about the maintenance CapEx for your operating assets. Can you just remind us what maintenance CapEx is for the current R&D portfolio or on a dollars per MMBtu basis to help give folks a sense of what your discretionary cash flow looks like?

Scott Contino

This is Scott Contino. Thank you Ryan for the question. With respect to maintenance CapEx for our renewable power portfolio there is a reasonable amount of maintenance CapEx a year that we add back to adjusted EBITDA. It's in the $10 million a year range something like that maybe a little less in that ballpark. For our RNG projects there's a lot less major maintenance CapEx. That's all capitalized. And I don't have a dollars per MMBtu number to give you but it's not a large number. In fact since most of our projects are very new it's not a significant number right now.

Adam Comora

Yes. This is Adam. Just a quick follow-up there because we've been chatting internally where I think it might be helpful for investors to understand the discretionary free cash flow generation of this business. We've told people historically that we'll have 90% to 95% free cash flow conversion from our EBITDA and I think it's lost on folks and we're going to start really illustrating that.

As Scott was just mentioning one of the beautiful things about our business is after we build these facilities unlike a traditional energy company we don't have to drill or spend capital to produce our fuel, right? If you remember what we do we drop PVC pipes into landfills and they have perforations and we connect them all together and we apply a little bit of suction to gather all that gas to our facilities. And the facilities themselves if you look across the portfolio where it sits today it's in the single-digit millions of maintenance CapEx and these are 20 year – 25 year assets and some of our gas rights even go out longer.

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So when you really think about us and the valuation of OPAL Fuels, our discretionary free cash flow after we build these facilities is really pretty phenomenal. And that discretionary free cash flow can be used to invest in new projects and that's what we're doing today because we still see really attractive opportunities to grow the business. And in the future you've got other things you could be doing with that discretionary free cash flow you could make acquisitions, you could pay a really healthy dividend. There's all sorts of things that we think can be a powerful shareholder value driving tool.

And I think we're going to get back into that and start illustrating to folks not only is this really -- are we growing extraordinarily quickly from an adjusted EBITDA perspective, but that adjusted EBITDA translates into discretionary free cash flow, to enhance shareholder value. So I'm thankful for the question, and we're going to start, I think showing better descriptors of growth CapEx versus maintenance CapEx, and discretionary free cash flow. So in total, as Scott was mentioning, our maintenance CapEx, across renewable power and the RNG facilities is in the low between $10 million and $20 million, I think, if we aggregated it all up and you look forward, and it's really attractive from that discretionary free cash flow perspective.

Ryan Pfingst

Yeah. I appreciate all that color, Adam, and Scott. So for my second question, I guess, just wondering, if you have an update on the ITC and any thoughts on timing there, or potential risks you might see, if we have a change in administration in November?

Adam Comora

Yeah. Another good question. This is Adam here. So I think, we're in a pretty good spot in terms of getting a final rule that we think likely will include our RNG projects for that saleable ITC credit. As for timing, I feel like, what we've been hearing is that, treasury does not want to just issue another piecemeal correction or on specifically Section 48 for RNG projects. They may be trying to issue one set of total final guidance on 48, and I think, there maybe some other issues that they're trying to work through and finalize.

So I feel like, our specific Section 48 final rule may be just waiting as they finalize whatever else they're doing in Section 48. I know, folks have been saying late summer, we're in late summer, third quarter. So we're still anticipating that we'll see that hopefully soon and so there's no change to how we're thinking about it in terms of total dollars that we think we'll be able to sell here as cash proceeds. And we've told folks not included in our adjusted EBITDA, something close to that $40 million range, and we've been in discussions with folks to even potentially close some of those sales, as treasury is still coming out with that final guidance.

And just an addendum to that previous question that we talked about in terms of discretionary free cash flow, those kinds of levels may be available for us in the next several years, because I think everybody understands that it's everything that you place into construction this year that qualifies. And we've got a host of projects that we think we're going to pre-qualify here, before the end of the year.

So if you want to think about our discretionary free cash flow over the next several years that would be something else that's available to us. And we're still working through the accounting treatment of where it will show up on the income statement, because they are salable credits and -- so still optimistic that we're going to get that positive final resolution disappointed, it's taking this long, but it's not slowing us down in terms of setting up projects to pre-qualify it, and setting up our monetization for those credits when they ultimately get generated.

Ryan Pfingst

Thanks appreciate that, Adam. I'll be right back.

Adam Comora

Oh sorry, yeah. Thanks Scott. Just reminded me I missed the change of administration and -- or I should say now potential change of administration or at least change of party. We -- there's been a lot of Republican support for what we do. And I think there was a letter that was sent to the house speaker signed by 18 or 20 Republicans talking about some of the benefits that are in the IRA, and some of the tax credits that go along with it.

I don't think that the Section 48 is at particular risk and there is a lot of Republican support, for specifically this tax credit within the IRA. So we don't think that, there's a lot of risk that necessarily this piece of the IRA will fall into that kind of scrutiny.

Ryan Pfingst

Got it. Thanks for that additional detail.

Operator

Thank you. Our next question comes from Adam Bubes with Goldman Sachs. Your line is now open.

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Adam Bubes

Hi. Good morning. Can you update us on just how you're thinking about your capacity to build fuel stations if demand for the 15-liter natural gas engine takes off how many fuel stations could you build in a given year?

Adam Comora

So our current build is in that 40% range 40% to 50% range. And that's sort of how we're set up today. I would say it would – in terms of scaling up that business, it would not be difficult for us. We don't have many constraints to how we would continue to add scaling capacity there, it would be to continue to add to our staff quite frankly both on the construction side and the service side.

And OPAL Fuels is in a little bit – we like to think of ourselves as being unique in a lot of ways. One of the ways that we're unique is our ability to attract talent. A lot of folks out there want to be part of the OPAL Fuels team really like what we're doing. And we think we'll be in a good spot to continue to add service techs and construction teams to scale up that business and really don't see any constraints from that perspective. If Cummins and others are right in the industry for what the uptake will be for that 15-liter engine.

Adam Bubes

And then as we think about the Burlington and Cottonwood project, what's the mark-to-market on how you're thinking about project timing today?

Jonathan Maurer

So it's interesting because the Polk project, which is coming online in Q4, we expect that to be early Q4 and that project will hit around a 15- or 16-month time frame. So I would say that's kind of at the faster end of our projects. We're certainly focused more on the time period leading up to getting projects into construction to ensure that those construction time frames remain tight for a project, an average project, we would think an 18 to 21 period would be a reasonable time frame for us.

Recollect that when we put a project into construction, we have a basic project design, we have the gas rights to execute it and a path to a pipeline and electric interconnection supply. So those are some of our key critical path items for putting a project into construction. Some people define construction differently. The actual time of getting out and starting to work, turning over the ground and putting in foundations and whatnot may occur somewhat later in the process. And certainly during that period, we'll complete the pipelines, we'll complete the rest of the permitting and other construction.

Sometimes in the past some of those other items have taken a little while longer to complete. And so it pushed us out so for example, on the Sapphire project, which is in commissioning right now, at the front end the landfill is working on some issues associated with PFOS and other things that we – that delayed our permitting by a couple of months and so set that time frame longer. But we're seeing projects in the future ought to reach that same 18- to 20-month time frame that I alluded to before.

Adam Bubes

And then last one for me. In the beginning of the year I think you guided towards an increase of RNG pending monetization in 2024 million or $15 million. Can you just update us on how you're thinking about the difference between the timing of RNG monetization and actual production in the balance of the year?

Adam Comora

Yes. This is Adam here. We – once we started talking about our adjusted EBITDA not having that RNG pending monetization component we still think it's helpful to – for folks to see what is being sold in a given quarter and pricing and that sort of thing to get a sense of how the operations are performing.

We don't see any major changes to how we were thinking about it but we just don't think it's as impactful anymore to talk about as a guidance metric. And likely as we move into 2025 and beyond, likely not be talking about that as much and talking more about what our production outlook and adjusted EBITDA outlook is and that sort of thing.

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Jonathan Maurer

I think I can illuminate another part of your question and that is that – we look at our production across the year and we will sell when the market – when we feel that the market is a good place, those credits on a forward basis. So that as Adam said earlier in his comments, we've sold as he put it a vast majority of our credits for the year. Typically we'll look at credit – at the projects that are in operation and tried to sell as much of those as we can during the course of the given year.

As projects come online and complete their commissioning, we'll start to sell those as well. And credits are generally salable within the current year or the current vintage year. And with regard to 2025 in the merchant end market, there's not really a deep market there yet. That will develop towards the end of the year. So Adam, I don't know if you wanted to add something.

Adam Comora

Yes. No, I think maybe I missed that nuance in the question. We are anticipating selling all of our RINs that we generate in 2024 in the calendar year 2024.

Adam Bubes

Got it, very helpful. I appreciate the color.

Operator

Thank you. [Operator instructions] Our next question comes from Alex Kania with Marathon Capital. Your line is open.

Alex Kania

Hi. Good morning. Thanks for taking my question. Maybe the first thing I was curious about is, just as you look to -- in the face of the updated production guidance for this year -- do you expect by year-end that all of the operating and commissioning assets are going to be roughly at full expected run rate? Or will there still be a little bit more to go as you move into early 2025?

Adam Comora

Yeah. This is Adam here. So I just wanted to provide a little bit more color on the production outlook in some of the newer facilities that have been commissioned. You can see some of that variability in the ramp of those new facilities from time to time.

Specifically this year, at Prince William, we had done a significant amount of well field drilling and expansion at that landfill before the facility came online. We were not able to tie in all those well field improvements and expansions into the broader collection system before we began operating the facility.

The root cause of that was really flare capacity that the municipality had in terms of us collecting the additional gas and flowing that additional gas. When we tied in the well field expansion and drilling into the base collection system, there was a little bit of a slower tie-in and seeing the gas flow from those additional wells.

So we've done -- we're in the process of remediating them and re-drilling some of them. We believe it's short-term in nature, and for us, we think short-term means several months. So we've been a little bit conservative for when we'll see the gas production from that well field expansion.

We are, I'd say, cautiously optimistic that we'll start to see all those improvements in the gas flowing from the expansions that we had done as we move through the balance of the year. Certainly, we'll provide our 2025 guidance later on when we issue our final year results. But that's how we think about it -- sort of short-term in nature, and the plant is performing excellently in terms of its processing of its inlet gas.

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That's the one issue that popped up in terms of our production. We're also continuing to optimize the equipment at our Emerald facility to be appropriately scaled to the size of the project. You all may recall that it's one of the largest RNG projects in the country.

Certain scalability issues are still being optimized, whether it's on the compressor side or the doxy skid that we use there. Again, these are relatively short-term in nature as we continue to optimize that equipment, and that's really on the margin there. I feel like both of those facilities will show good growth as we move into 2025.

Jonathan Maurer

And just to repeat things that we've talked about in the past, we build projects to a size larger than the current gas resource because these landfills that we're on are all open and growing. So over time, you'll see these projects continue to improve as we call "same-store sales" as the gas resource continues to grow.

We reach availability and efficiency for these projects fairly quickly in the low to mid-90s range, which, when multiplied together, gives you a mid-80% productivity factor. Looking at both of those factors over time -- the growth in same-store sales, the efficiency and availability of our projects, and, as Adam was talking about earlier, the ramp on the initial front end of the project.

Adam Comora

Yeah. Our initial thinking -- just to sort of put a button on that -- is really more about 2024 than 2025 at those newer facilities.

Alex Kania

Great, thanks for that color. Then, maybe just a follow-up thinking about the -- maybe on the fueling side and the Class A side. I know that the Phase 3 funnel rules were out, and I think they were having some revisions. But just wondering how you think about the adoption or the pace of acceleration, or any color on CNG-related vehicles as it stands relative to what EPA has been giving in terms of their guidance?

Adam Comora

That is a really interesting question and it dovetails into a couple of things. So on the 15-liter itself, really pleased with the feedback that we're hearing, really pleased that freightliner is going to be rolling it out and make available for those that are like five freightliner trucks and to join PACCAR and really think that it's going to be a terrific product for fleets to replace diesel and save money.

And if they're working with an RNG supplier, they'll get all the sustainability benefits with it as well. And there have been a couple of things out there, which I feel like, I would say, not accelerating adoption. How's that? And one of them is that noise that has come out of the EPA on Phase III truck regulations, which I do believe people are starting to listen to industry feedback on -- people in D.C.

I think, are going to -- are starting to listen to what industry is telling them about those Phase III regs. And it's one of the interesting things that we and folks in our sector and our industry are really focused on is really educating the Democratic side of things or the more progressive climate side of things that not all molecules are bad.

Specifically in our industry, we're collecting waste molecules that exist and transportation fuel and heavy-duty trucking is a terrific application form where other technologies are not -- are struggling to meet sort of emission reductions for transportation. And so we spend a lot of time talking to Republican about, hey, this is a really great pragmatic solution and really supports a lot of Republican constituencies in ag and municipalities and rural communities that we should be incentivizing and recognizing the benefits of collecting biogas emissions at their source.

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And specifically with Republicans talking to them about, we should really be also embracing some of these electron policies, whether it be eRINs or other things that promote renewable electricity. And on the Democratic side is really explaining to them that combustion of molecules isn't always bad depending on where it comes from and what the other options are there.

So yes, the Phase III EPA regs have created noise have created some confusion, had some fleets say, hey, wait a minute, what do those mean for me deploying RNG? And look, that's one of the things that we're focused on and doing and different political outcomes have different areas of focus for us to do education and advocacy wise. And that's one where if there's a Republican administration, I think we could be off to the races on the use of RNG in heavy-duty trucking and maybe have a little bit more work to do on the electric policies, whether they be eRINs or some other incentives for renewable power, and we can all talk about electricity demand and what's happening in this country and why this is a good answer.

And if the Democrats happen to win the White House, I think we're off to the races on a lot of those electricity policies, whether it be eRINs or other things. And we got a little work to do to make sure that, hey, this is a really good answer for heavy-duty trucking and really work on those Phase III regs.

So needless to say, we think whoever wins, both sides of those policies make sense, which is what we keep talking about. And -- but it will just direct our focus on to which ones we really have to spend more time on.

Alex Kania

Great. Thank you.

Adam Comora

Thanks, Alex.

Operator

Thank you. Our next question comes from Thomas Meric with Janney Montgomery Scott. Your line is open.

Thomas Meric

Thanks gentlemen. Thanks for the time for few questions. Just want to touch base on the Cummins 15-liter ask a question slightly different way. I know you talked about it extensively so far. Just want to think through potential fleet owners, as they look at supply and demand at CNG, are they contemplating kind of front-loading of infrastructure needed for whatever scale fleet they're looking to operate? Or do they look at it and think the supply of stations is adequate for their needs? And then a follow-up.

Adam Comora

Yes. Another good question. So we're still in early days of deploying either CNG or RNG as transportation fuel for heavy-duty trucking. And I would remind folks that 85% to 90% of what we build is really dedicated fueling distribution centers and now looking at potentially rolling out lanes for folks between those distribution centers and that sort of thing. It takes us also about 12 to 14 months to build a fuel station, which is about the same amount of time for their trucks to get delivered.

So we see those fleets making those decisions at the same time on fueling infrastructure as they're ordering trucks and they typically go hand in hand where okay they're happy with the truck. They know what they're specking they're ordering them and then they're engaged in their fueling strategy. One interesting thing for OPAL fuels is the beautiful nature of our vertical integration, and how certainly RNG has captured the attention of a lot of these fleets because they're also looking for ways to reduce their Scope 1 and Scope 2 emissions.

And I would remind folks when fleets use RNG versus diesel, the greenhouse gas accounting protocol is zero Scope 1 emissions and also zero Scope 2 because that's derived from your electricity usage. So this is a really powerful product for them. And so they're engaging with us at the same time that they're thinking about that truck order, and really working with us to make sure that the fuel station is aligned and they can get their fuel as those trucks are being delivered.

Thomas Meric

That's super helpful. And then my follow-up is really on EPA rules or potential EPA rules as they look to potentially update their landfill emission standards from 2016, I'm curious just how you think about that opportunity? What are the puts and takes from the stakeholders? I know it's early days the rule hasn't even been proposed yet. But any color you could provide to us would be helpful just as we contemplate the future of landfill gas and what the EPA is requiring?

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Adam Comora

Yeah. So I think the EPA is really focused on methane emissions wherever they come from. And quite frankly rightfully so, 80% more damaging than CO2. And really, the most impactful thing we can do to hawk climate change. So they are looking at methane emissions from a variety of places, and they already came out with a lot of regulations on pipeline companies and E&P companies on how they're going to do methane, monitoring and that sort of thing.

And I think they're moving on to other sources of methane as well. And I think EPA recognizes and folks in D.C. recognize that it's really important to continue to promote public policies that incentivize the capture of biogas to make sure that it incentivizes the right behavior. And what technologies or how they're thinking about methane monitoring and measurement, I think a lot of that is being worked through. And we don't have a specific opinion on how to do methane monitoring or that sort of thing.

But what I do know is that focus on methane emissions or mapping emissions from organic waste is likely going to come into focus and we think we're in a terrific place to help folks capture it and turn it into a beneficial use. So we think it's going to be a helpful talent for public policy and what we're doing. And we're happy to partner with folks to make sure we're capturing as many biogenic methane emissions that we can and turning them into their productive use.

Jonathan Maurer

Our landfill partners are super focused on collecting methane and they recognize that this is a real opportunity. I think that the value of the RNG projects has really helped them to increase their focus as well. As the more methane they're able to collect, obviously that turns into higher royalties as well as for those who have ownership interest in projects higher equity distributions as well so it's a great focus.

In addition to the RNG projects that the policymakers as they start to focus on methane emissions particularly at landfills, you will see that the eRIN policy and others really help to promote that capture and conversion and particularly at smaller landfills that may not have the scale to do a larger RNG project. So we'll be looking very closely at how we work with our great landfill partners to promote that policy and increase that collection.

Adam Comora

Yeah. And really what it does is that focus on methane emissions it's just going to create greater alignment between us and our feedstock cost where everybody is going to be aligned to make sure we're doing everything that we can to maximize the gas collection and its productive use.

Thomas Meric

Great. Thanks gentlemen. Appreciate it.

Adam Comora

Thank you.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn it back to Adam Comora for closing remarks.

Adam Comora

Yeah. I appreciate everybody's interest in OPAL Fuels. We are really excited about what we're doing here and our growth outlook and I hope everybody has a wonderful rest of their day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

**Load-Date:** August 9, 2024

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