Tortoise Energy Podcast

June 29, 2020

Welcome to the Tortoise podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise.

Last Tuesday oil hit its highest level since early March on reports that Yemen Houthis carried out a large scale attack deep in Saudi Arabia and the Kingdom reporting it had intercepted at least 4 ballistic missiles fired towards Riyadh and destroyed at least 8 explosive-laden drones. Additionally Bloomberg reported Nigeria, Angola, Gabon and Brunei have all submitted plans to the OPEC Secretariat showing how they will lower output in line with their quota. These signs of further supply contraction were met with the countervailing force of increased reported covid cases which threaten the demand recovery.

Speaking of demand we are indeed seeing a pick-up in activity. The team has been reviewing any bit of data we can get our hands on. One I'm sure you're familiar with at this point is mobility data which essentially is "the man" tracking you through mobile devices. Creepy, yes, but helpful when trying to get a real time sense of demand trends. ISI does a really nice job of compiling tons of data into one useful toolkit that I've been following closely. At a high level, Apple driving data and the Dallas Fed Mobility and Engagement index are showing activity levels near "normal" which is a little hard to believe. Looking around the globe, in Europe, on one end you have Germany at 90% of peak and Sweden over 100% while Spain on the other end remains at 60%. As I understand it, peak is the pre-covid level so not necessarily seasonally adjusted so all this data is directionally helpful but needs to be taken with the appropriate level of skepticism. Across the U.S., in New York, California and Texas we are seeing activity at 100%, 90% and over 100%, respectively compared to pre-covid. In particular I think this is where the seasonality is showing up. Either way we are seeing huge rebounds from April lows. In China it's a different story where in in Beijing in early June the government placed restrictions to curtail traffic which was leading to above normal congestion but this has since eased most recently with limited re-imposition of lockdowns.

Aviation is less than 10% of global transport fuel demand but just quickly on the trends; Asia (ex-China), northern Europe and the U.S. are seeing a rebounded departures, off a really low base, while southern Europe has been stable at low levels. China, after weeks of rapid growth, is declining similar to recent traffic trends.

Finally on diesel fuel, uses are so diverse that I'm not aware of a strong single indicator but from discussions with our portfolio companies, diesel has been much more resilient than gasoline with estimates for peak decline between 15-25% depending on geography. Similarly here they are reporting a modest rebound in demand.

In the U.S., we are able confirm these demand levels with Department of Energy weekly reports which show gasoline and diesel demand at 90% of last year's levels after dropping to 50 and 75% of normal, respectively in April. Clearly this is at risk with the recent reintroduction of some restrictions in Texas and California so we will monitor closely.

Moving on, as the polls have strongly shifted away from Trump in favor of Joe Biden I thought it would be timely to hit some of the key points from Biden's climate policy, taken directly from his website. At a high level he proposes a $1.7T climate plan focused on clean energy, made in the USA, with a 2050 net zero emission target. Additionally the plan envisions an enforcement mechanism to stay on track along the way. Obviously at this point that part is vague but I like the concept as many other net zero plans just have an end point they call out with limited measurement along the way. Another aspect that is yet to be detailed but conceptually makes sense to me is tying a climate plan to trade policy to force other countries, namely China, into action to address emissions. The next point, to me, is a no-brainer; the plan calls for permanent protection of the Arctic National Wildlife Refuge from drilling. Judging by the incredibly low oil and gas prices the economy has seen over the last several years I don't think it makes a ton of sense to add new drilling locations in a wildlife refuge…I think we are all set with plenty of oil and gas already. What's more impactful is a call for banning permitting on public lands which, if this means all federal lands, would have a big impact on the Permian basin in eastern New Mexico where a large amount of current oil production comes from today. A couple other areas highlighted in the plan have been getting more attention recently and I think could be a key part of decarbonizing some of the more challenging parts of our economy that are particularly energy intensive. This list in not exhaustive but include carbon sequestration and hydrogen fuel. In fact these two can work together as I described in a podcast back in January where Equinor is working on a project which uses natural gas combined with carbon sequestration to create emission free hydrogen. While currently more costly, hydrogen can be made from renewable energy creating a truly emission free resource. Regardless of how it's made, as I understand it, with minimum modifications to transportation infrastructure and end user equipment hydrogen can be blended into the natural gas stream or even replace it altogether. While it's still quite early on, this could be an interesting solution to tackle low or no carbon home heating and fuel for heavy industry as well as the question of a lack of infrastructure for this fuel

Shifting gears, the only noteworthy midstream company news to cover was the order issued by a Michigan judge which will require Enbridge Line 5 to temporarily shut down its west line until a hearing Tuesday where the judge will rule on the longer term fate of the pipe. The west line will join the east leg which is already closed following detection of damage the week previous. It is hard to know how long the lines may be down but we should get additional insight following the hearing. Needless to say these things are pretty difficult to predict but either way we've modeled the impact and believe the full idling of the asset would impact Enbridge's $14B annual EBITDA by 2-3%. In a sign of the times the hearing will be virtual and held over Zoom.

One late breaking development in company news is the formal chapter 11 filing for Chesapeake which came out on Sunday. This potential has been heavily rumored for the last several weeks and frankly has been a risk for the last few years, if not several. Chesapeake announced it will continue to operate in normal course throughout the restructuring process having obtained $925 million of debtor in possession financing. The company also has a support agreement executed with a majority of its creditors to eliminate $7 billion of debt. Chesapeake indicated it plans to use the bankruptcy proceeds to strengthen its balance sheet and restructure its legacy contract obligations.

Given the majority of Chesapeake's legacy pipeline and midstream contracts have already been restructured in prior years we don't expect any material impact in our portfolio holdings.

I'll leave it there for now. Thanks for listening.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

The S&P 500® Index is a market-value weighted index of equity securities.

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*