Tortoise Energy Podcast

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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. I've got a lot to cover this week so let's jump in.

BP released their 2020 energy outlook last week and certainly caught the market's attention. This biggest eye-catcher was the updated oil demand forecast. They present 3 cases and in two of the cases "rapid transition" and "net-zero" oil demand has already peaked. In fact in these scenarios by 2050 oil demand is down to 55 million bpd and 30 million bpd, respectively, relative to 100 million bpd last year….wow! Even in the "business as usual" case oil demand peaks by the middle part of this decade before steady falling thereafter. Compared to last year's forecast which showed modest growth or stable demand in all but the most conservative case through the forecast period this is quite a shift. I personally struggle with how the house view changed that much in a year but two new elements need to be considered including COVID, of course, as well as the impact of a carbon price which was not assumed in prior forecasts. For perspective Spencer Dale who has led the forecast for several years added "This would be entirely unprecedented. In the modern history of energy, there has never been a sustained decline in the consumption of any traded fuel," he went on to add, and I'm paraphrasing a bit, "We can't predict the future, moreover, we know we can't predict the future."

Even with this color I'm still dying for more insight. If you're like me, then you are in luck as we will host a fireside chat with BP's outlook group this week to discuss this report so stay tuned; how's that for a shameless plug.

Another forecast came out last week from the International Energy Agency. The highlight here was lowering 2020 demand forecast by 300 mbpd vs last month's estimate due to lingering COVID effects and stubbornly slow return of air traffic. On the other hand inventory did draw in August and despite a weaker forecast, inventory is still expected to draw 3.4 million bpd in the back half of the year.

Moving on, it was a pretty active week on the company news front. I'll start with the world's largest renewable producer, NextEra, who raised earnings guidance for the next two years by 2% and is extending is growth outlook through 2023 reflecting strong business performance and tailwinds for their wind and solar development program. In a move from the good old days in MLP-land they used the share price strength from the update to drop $2B of equity on market.

Sticking with renewable news, Portuguese wind giant, EDP announced it was joining the Powering Past Coal Alliance, a group of 34 countries and 44 other organizations dedicated to ending coal fired power generation and replacing it with cleaner generation such as gas and renewables.

Related to this LNG exports from the U.S. have rapidly shot back up in recent weeks following the big jump in the premium of Asian gas prices relative to the U.S. and then GE announced Monday of this week they are exiting the business of building coal fired power turbines.

Moving on, in a game of family feud (though technically not still family) Equitrans Midstream issued a statement Monday regarding a contract dispute with its former sponsor, largest customer and still major shareholder, EQT. The dispute is with the recently constructed Hammerhead pipeline and whether or not it's technically in service, which if it isn't triggers a unique clause in the contract. To explain, I will quote the statement issued by the company.

"It has recently come to our attention that EQT has a mistaken belief that the Hammerhead pipeline is not in-service under the terms of its agreement; and, on that basis, that EQT believes it may terminate the gathering agreement and take title to the Hammerhead pipeline in exchange for a reimbursement payment. EQT, acting through its financial advisor, has attempted to market ETRN's Hammerhead pipeline, which action constitutes unlawful conduct."

In 20 years of doing this job, this is a first. Given the fact that the pipeline had gas injected by EQT in July and can access two 3rd party interstate pipelines I have to think EQT is off base here but they've taken some pretty bold action signaling they firmly believe in their position. My expectation is the two companies will come to some sort of agreement but obviously it's hard to know for sure.

In more encouraging news, Abu Dhabi's main sovereign wealth fund has taken a 5.1% stake in U.S. based LNG exporter, Cheniere Energy. I find it fascinating that a member of the United Arab Emirates and OPEC member with enormous oil and gas reserves has taken a significant position in a U.S. midstream company becoming its 4th largest shareholder. Abu Dhabi Investment Authority, if you're listening, hit me on the Snapchat…I know of some other great midstream companies you should buy.

Speaking of UAE, they announced a reduction of November sales by 25% after cutting October sales by 30% to compensate for the fact they've been over producing on their quota recently. On that point OPEC leader Saudi Arabia is getting even more aggressive on production cuts and price management. In fact coming out of Thursday's meeting with other OPEC ministers Prince Abdulaziz bin Salman had some harsh words for short sellers stating "We will never leave this market unattended….I want the guys on the trading floors to be as jumpy as possible. I'm going to make sure whoever gambles on this market will be ouching like hell." I'd say plenty of oil traders are "ouching" this year but not for the reason he is thinking.

I can only go downhill after that one so I'll leave it there this week, 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.

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