TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

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

Last week President Biden signed a host of executive actions focused on promoting US climate leadership. Overall, it included a number of directives to promote renewable energy and these are detailed in a separate TortoiseEcofin podcast hosted by our very own renewable guru Jerry Polacek. As it relates oil and gas, the most concrete action taken was the pause on new oil and gas leases on public lands and waters. This was well telegraphed and follows last week's announcement that all new permitting for drilling activities on federal land and waters will consolidate from regional offices to a centralized process for 60 days. To clarify the process on federal acreage, first a company leases acreage, which last 10 years, then in the future request permits, with a 2 year life, to produce from these leases so these are indeed separate items despite often getting confused in the market. So the drilling permits have a more near term impact while leases impact the longer term. I'd say without a doubt the process will be more rigorous going forward, which is a good thing, but it's not the sensational "frac ban" as you may hear in the media. Bottom line, the producers have years-worth of leases and drilling permits in hand but this should support better environmental practices and more capital discipline on the industry which is what the market has been clamoring for.

In the ongoing Dakota Access game of hot potato, the D.C. Circuit Court of Appeals upheld that the easement across federal lands is invalid and the requirement that the Army Corps of Engineers (USACE) complete an Environmental Impact Statement (EIS) for the project. However, the court did maintain the pipeline doesn't need to shut down immediately. Effectively, this puts the hot potato back in the Army Corp's hands as they've been ordered by the court to decide what to do in a hearing scheduled for February 10th. I won't bore you with all the possible paths this could take from here but suffice to say this drama is far from over and indeed it is a possibility that, with the combination of no easement and a new administration, the pipeline could be ordered to shut down although I have no clue of the probability.

While earnings season started to heat up last week the real focus was how energy companies are becoming key players in delivering the low carbon energy of future, highlights include:

- NextEra, who as expected, reiterated prior EPS guidance over the next three years with a CAGR of 6%-8% but the focus was more on their renewable power backlog which grew nicely to a total backlog of 23 to 30 GWs through 2024
- For Valero results came in better than expected driven by biofuels. Refining margins remain under pressure with utilization still running around 80% but renewable diesel and ethanol margins were strong. The company is in the process of expanding renewable diesel production at its Port Arthur refinery and board approved a phase 3 expansion and 50% of its 2021 growth budget is to expand RD production.
- Similarly Phillips 66 missed slightly with soft refining, in line midstream and strong chemicals results from record demand for food packaging and medical supplies. They too are investing in RD with the conversion of their San Francisco refinery into a renewable fuels facility. Further they have recently formed an Emerging Energy business focused on additional renewable fuels including exploring electrolysis to convert carbon dioxide into a clean fuel.

Other items of interest were:

- Marathon oil announcing incentive compensation changes and a greenhouse gas (GHG) emission reduction initiative. Management's short term incentive comp no longer includes production related targets and will now be tied to GHG reductions and safety scores along with capital efficiency and balance sheet metrics. The new environmental plan calls for a 30% reduction in GHG emissions for 2021 relative to 2019 of which 2/3s was accomplished in 2020. This target grows to 50% by 2025.
- Last but not least Kinder Morgan hosted an analyst day last week and along with providing a detailed update on existing operations they shared thoughts on how they fit into the energy evolution including transportation of renewable diesel, renewable natural gas, responsibly sourced natural gas and potential opportunities in hydrogen and carbon capture and sequestration.

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I provide all these examples to demonstrate that energy companies are not only on board, but are playing a key role, in finding scalable solutions to keep the lights on and the economy running but doing so with low and eventually no carbon in the future.

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

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