TortoiseEcofin QuickTake Podcast

February 16, 2021

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

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and I am happy to host this week's Energy Podcast. I have had interesting timing for hosting this podcast as the last time I was here was after President Trump was impeached by the Congress and this time we saw the conclusion of the impeachment trial of former President Trump. Equities were surprisingly buoyant as this news did not shake markets. We are in fourth quarter earnings season so we will update you on some company earnings and highlight a few developments on the regulatory front as well. With that, let's look at market performance for the week.

Markets were positive:

- The Alerian MLP Index finished up 2.6%, and is up 13.0% year to date
- Other energy stocks, represented by the Energy Select Sector SPDR (XLE), were up 3.6% for the week
- In broader markets, the S&P 500 gained 0.8% and the ten-year treasury was basically flat

As part of the ongoing energy transition we saw several announcements from oil majors on new developments. On the renewable front, Shell (RDS-A) entered into an agreement with Amazon (AMZN) to supply renewable energy from a wind farm off the coast of the Netherlands. BP (BP) and Total (TOT), with German utility RWE, won bids to construct an offshore wind farm in the U.K. The project will take ten years to develop at the cost of $1.2 billion per year and eventually power seven million homes. If the net zero plans popping up all over the world are going to be successful, the world must develop ground-breaking technology to capture and sequester carbon dioxide. A division of Schlumberger (SLB), one of the world's largest oilfield service companies, announced a partnership to develop carbon capture technologies. The goal is to develop large scale solutions for various sectors but the partnership will start with cement production, one of the largest emitters of CO_2 in the world. In further developments Equinor (EQNR), the Norwegian oil giant, announced a divestment from tradition oil & gas by selling its acreage position in the Bakken formation here in the U.S. Royal Dutch Shell (RDS-A) gave the market another update on its transition plans, citing a focus on carbon capture, liquefied natural gas, and a gradual decline in its oil production. It may surprise listeners to know that the energy industry is the largest player in the current carbon capture business, in fact Exxon Mobil (XOM) is the single largest player in the world. In midstream Energy Transfer (ETP-E) announced a development effort to explore solar and wind farms where ET could be a purchaser of power or a partner. The company also mentioned an interest in renewable diesel and natural gas when they are more economically viable.

We have had limited earnings announcements so far, but the releases we got last week generally disappointed the market. In our view, it may be more about messaging than results. Plains All American (PAA) disappointed on both earnings and outlook. Spread differentials, the difference in the price of crude oil in two different locations, were soft in the fourth quarter and earnings were lower than expected as a result. The 2021 outlook reaffirmed our view of high free cash flow creation, even after the distribution. However, a conservative projection for current year earnings was below expectations. The difference was in large part due to asset sales, which should improve cash available for debt reduction and unit buybacks. We think the market was overly bearish in its reaction to the news. DCP Midstream (DCP) announced last week as well. In similar fashion 2021 guidance was light, but included commodity price assumptions well below the current futures curve. If the curves are directionally correct, DCP may be in a position to raise guidance if it can realize higher prices as the year progresses. DCP did not see the same level of market weakness as Plains, perhaps in large part to their success in cost cutting and efficiency gains in recent years. Additionally, despite weaker earnings and guidance, free cash flow for DCP actually improved in the fourth quarter and they provided a strong outlook for this year. Enbridge (ENB) announced fourth quarter earnings that were slightly below consensus, that 2020 earnings were in line with 2019, and the company reaffirmed 2021 guidance. All in all, solid results in a turbulent period. On the podcast last week Rob mentioned Chevron's (CVX) take-out offer for NBLX. At the end of the week NBLX provided guidance and a de-levering plan for 2021, both were a little below consensus.

As mentioned earlier, there were some interesting developments on the regulatory front. The ongoing legal dispute over the Dakota Access Pipeline was supposed to have a hearing last week. In an interesting twist, the government asked for a postponement and the hearing will now occur in early April. We don't read anything into this development, other than this process will likely take longer than earlier expected. In other pipeline news, Senator Joe Manchin of West Virginia took the helm of the Energy and Natural Resources Committee. In what we presume to be his first official communication to the White

House as Chairman, the Senator asked the Biden administration to reverse its position on the Keystone XL Pipeline and allow construction to resume. He also asked the administration to realize the importance another project, the Mountain Valley Pipeline. We have not yet seen a response from the White House, but it is an interesting development nonetheless. In further Keystone XL news, 14 states' attorneys general sent a letter to the Biden administration asking it to reconsider its Keystone XL decision, like Senator Manchin citing jobs and state revenue issues.

With respect to commodity prices, President Biden said he would not lift sanctions on Iran until they are in compliance with the nuclear agreement. This is near-term positive for crude oil prices as it keeps most of Iran's production off the global market. Brent crude oil prices were up 2.7 percent to $62 last week in conjunction with this news and a large crude oil draw from storage in the U.S. Citi raised its price forecast $5 per barrel and conversely Bank of America pulled forward their peak oil demand projection to 2030. Clearly a lot of uncertainty, but we believe recent activity is supportive of energy generally and positive for midstream sentiment as well. The Energy Information Administration put out its Short Term Energy Outlook last week. Their forecast is for crude oil production from the U.S. to grow steadily over the next two years; from 11 million barrels per day now, to close to 11.8 million barrels per day buy the end of 2022.

Thanks for joining us and we will be back next week. Please stay safe.

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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