TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. I'm Brian Kessens, senior portfolio manager and managing director. Thank you for joining us as we provide timely updates on the market.

Energy extended its outperformance last week, broadly moving higher by 4.3%, with MLPs gaining just over 1% as confidence in the reopening trade remains. Oil prices also improved as supply stays below demand, with expectations for that dynamic to continue for the duration of 2021.

We largely finished up earnings last week. On average, for 2020 midstream earnings as a whole, EBITDA only missed initial pre-COVID guidance by 3-5%, and beat post COVID expectations. The fee-based, largely contracted nature of midstream revenue clearly held up well. For the fourth quarter, earnings were mostly in-line with a handful of beats, and companies with announced share buybacks programs initiated purchases. For 2021, guidance generally assumes relatively flat levels of production relative to 2020 (potentially conservative), leverage is expected to continue falling, growing free cash flow remains the goal, and we think midstream companies will start to make investments along energy evolution as managements evaluate opportunities. And last week wasn't without another carbon reduction goal announcement with Equitrans Midstream now targeting a 50% reduction in methane emissions and greenhouse gas emissions by 2030 and 2040, respectively.

Speaking of energy evolution investments, Enbridge and Brookfield announced a project in Quebec to build a green hydrogen production plant with a 20 MW electrolyser adjacent to hydroelectric facilities that will power the facility. The project will focus on the production, distribution through pipelines, and use of green hydrogen.

Staying with the evolution theme, Occidental Petroleum is performing engineering design work for a direct air carbon capture unit. Each unit would extract one million tons of CO_2 annually. For reference, the world generates around 50 billion tons of carbon a year – clearly lots of work to do on carbon capture. Occidental believes the initial units will need tax credits to make the economics work, yet expects carbon capture to achieve stand-alone economic success quickly.

Let's keep with the producers, where in the US they continue to emphasize capex discipline. For example, Occidental Petroleum expects flat 2021 production based on their estimate of $2.9 billion of capex. There are some suggestions of increased investment if the situation demands it, mostly from EOG which said it may grow production 8-10% beyond 2021, yet discipline remains intact. Speaking of EOG, the large producer made reducing methane emissions a top priority, setting a goal to achieve zero routine flaring by 2025 and to reach net zero scope 1 and scope 2 greenhouse gas emissions by 2040.

In M&A news, Kinder Morgan and Brookfield sold a 25% interest in NGLP, an interstate natural gas pipeline running from the Gulf Coast through the Mid-Continent to Chicago. The sale to private equity firm ArcLight came at an 11.2x EBITDA multiple and indicates relatively healthy multiples are being paid for pipeline assets in the private market.

Debt markets remain completely open for midstream issuance. Last week Cheniere Energy Partners issued $1.5 billion 10 year paper at a 4% coupon in an upsized deal. Additionally, the Williams Companies priced a $900 million 10 year note with a 2.6% coupon. Both are the lowest priced deals in both companies debt stack.

A week after the power outages in Texas, we have a better sense for the company financial impacts. Power providers with contracts promising power indicated significant cash flow impacts in some cases, as they were forced to purchase power at the max $9,000 per MWhr. The financial hit will measure in the hundreds of millions for RWE, Exelon and Vistra and the tens of millions for Algonquin Power and Clearway Energy. Local gas distribution companies, like Atmos Energy and Centerpoint, experienced significantly higher natural gas purchase costs – notably in the billions. With these costs being largely passed through to the consumer, there shouldn't be much impact to EPS. The ultimate impacts to the consumer will likely be shared among states, consumers and the companies themselves over the longer-term. Finally, some companies will likely see a benefit. Midstream companies with the ability to sell natural gas from storage will see a positive impact as providing this service was extremely valuable in the midst of the power outages. Though if those companies had to purchase a lot of power during the crisis, that may offset some gains. Longer-term, we expect a focus on hardening Texas power and energy assets with an emphasis on improving coordination and redundancy.

This week offers the potential for a heavy energy news cycle. First, the world's premier energy conference, CERAWeek, starts Monday and continues virtually through Friday. On top of that is the Morgan Stanley Energy & Power Conference and analyst days from Enterprise Products and ExxonMobil. OPEC+ also meets in the back half where they're expected to relax some output cuts for April and beyond due to expectations that oil demand improves with continued vaccination rollout. We'll be back in seven days to highlight and analyze the top news from a packed week. Thanks for listening.

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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The **Alerian Midstream Energy Index®** is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basas (AMNA) and on a total-return basis (AMNAX).

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℠
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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.

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