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.

Last week may have been short, yet the White House infrastructure plan and an OPEC+ meeting made it full of potential market moving events. Neither however was overly surprising with the S&P 500 and midstream MLPs gaining just over 1%, with broader energy down slightly.

As mentioned, OPEC+ met last week primarily to determine May production levels. And again, the group's dialogue and decision was constructive for oil markets (no April Fools), though plans are to raise production instead of standing pat. The raise is gradual, increasing 600 mbpd in May with further incremental raises in June and July. Saudi Arabia also indicated it would taper its 1 mm bpd voluntary cut over time, with 250 mbpd coming off in May. The reason for the increase is an anticipation for higher crude oil demand as the economy reopens. The countries will meet again next month to revisit that course. The market read the agreement positively as crude oil prices improved over 3% following the decision, leaving prices up slightly on the week.

President Biden introduced his "American Jobs Plan" or infrastructure bill last week. The plan includes $2 trillion for broadly defined infrastructure over eight years, to be funded by 15 years of higher taxes. He proposed significant support for wind, solar, storage, carbon capture, fuel cells, and EV infrastructure. The plan now moves to congress where there is certainly to be an uphill battle with the Senate evenly divided. Nonetheless, thinking about midstream implications: (1) corporate tax rates are proposed to be raised to 28%. That favors MLPs over C-Corps yet pipeline C-Corps generally have tax shields yet for the next several years. (2) The plan supports carbon capture and sequestration. Midstream companies are seemingly most to benefit due to their knowledge of CO_2 transport and storage. We already know this is a big part of Kinder Morgan's focus. (3) There was nothing in the proposal specific to MLPs, though expanding the definition of qualifying income remains a possibility as Senators Moran and Coons reintroduced their bipartisan MLP Parity Act in the Senate last week.

Carbon capture is a part of the infrastructure bill and remains topical globally. The Alberta government recently proposed to the Canadian federal government investing $30 billion over the next decade to support the buildout of large-scale industrial carbon-capture projects. This would help Canada reduce its CO_2 emissions to meet targets set forth in the Paris climate agreement. Potentially, federal support would enable Alberta to become an industrial carbon capture, utilization and storage (or CCUS) hub, joining the development of similar hubs in Australia, the Netherlands, Norway and the United Kingdom. We think the U.S. Gulf Coast also offers the potential for a CCUS hub domestically with the infrastructure plan offering funding for it.

In M&A news, Pioneer Natural Resources agreed to acquire DoublePoint Energy for $6.4 billion in stock and cash. DoublePoint owns a contiguous position of 97,000 acres directly offsetting and overlapping Pioneer's footprint. The transaction is financially accretive, with estimated synergies of $175 million, and partly because of the transaction, Pioneer indicated it expects to increase its variable dividend per share beginning in 2022. We expect variable pay dividends to continue in the producing community and for more M&A activity among producers, especially where there are significant synergies.

In pipeline news, Energy Transfer and Centurion Pipeline announced a joint tariff for crude oil transportation service from Platteville, Colorado and Cushing, Oklahoma to Energy Transfer's Nederland, Texas terminal. This is a good example of companies working together to efficiently utilize existing pipeline footprints.

Lastly, let's spend a second on natural gas liquids. Despite the Texas storm in February, NGL exports are near multi-year highs due to ever-strong international demand. Looking longer-term, the IEA recently projected that 70% of global liquids demand growth will come from NGLs through 2026. Prices are now the highest since 2018 with visibility of staying there given low level inventories. And with the U.S. being a low-cost NGL producer, the NGL theme is one of the brightest we're seeing across the entire energy value chain.

This week we have the first full trading week of the second quarter. My how time flies. And it's the last week before first quarter earnings begin. We look forward to bringing you our thoughts on all of it. 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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