May 10, 2021

**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.**

Hope all the moms out there enjoyed a happy Mother's Day.

Last week, energy performance ended happily as the sector continued its strong run, with broad energy surging nearly 9% and midstream improving 4%. Many factors continue to drive performance, including: a positive macro backdrop with energy demand returning to normalized levels following the economic reopening (helped last week by the European Commission opening various countries to vaccinated travelers), higher inflationary expectations providing a constructive commodity price backdrop, oil inventory declines (note last week US crude oil inventories dropped 8 million barrels and exports reached their highest level in over a year, indicating international demand growth is real), and positive earnings prints proving free cash flow generation across the energy value chain is significant and sustainable. In addition, there is a growing recognition that traditional energy companies are set to play an outsized role in decarbonization given their expertise in building infrastructure, working with regulators, and the fact they have existing infrastructure in place that provides companies a leg up on project returns. Let's get to some details.

Last week, first quarter energy earnings reports reached a climax, ultimately continuing the beat and raise trend we saw across midstream since the start of earnings.

Energy Transfer's results epitomized the earnings season. The first quarter benefitted from the Texas winter storm. Recognizing the storm was forthcoming, Energy Transfer took every effort to prepare, from winterizing equipment to shifting power sources away from electricity, so they could provide continual, reliable natural gas during the cold weather. Those efforts paid off with the company able to transport natural gas from out of state and also sell some of its own natural gas to those in need. Ultimately the company earned an outsized return of $2.4 billion. While one-time, the amount was put toward delivering the balance sheet, resulting in a reduction of one-third of an EBITDA turn in leverage. Further, Energy Transfer boosted 2021 guidance by more than the storm beat, noting that they're seeing record natural gas processing volumes in the Permian in April. Finally, the company is actively looking at carbon capture opportunities at processing plants along with renewable natural gas and fuels projects.

Enterprise's call noted the same themes, announcing a one-time winter storm benefit of $250 million, indicating Permian completion activity is just below peak levels with private producers stepping up significantly, and stating diesel demand is already above pre-COVID levels. And count Targa Resources among those in the beat and raise category with indications for accelerating Permian activity.

A final note on the storm, a lasting impact is that several midstream companies noted the storm reemphasizes the need for firm storage and transportation, with discussions already being had about more firm intrastate pipeline demand, resulting in higher storage and transport rates.

The large Canadian pipeline companies, TC Energy and Enbridge, reported results largely in-line, with both emphasizing energy transition opportunities. TC Energy sees decarbonization investments in the integration of hydrogen and renewable natural gas, along with repowering some US natural gas pipelines with renewables. Enbridge noted it is exploring a $CO_2$ trunkline in Alberta along with decarbonization of its LDC and natural gas pipelines. Clearly, the ability to repurpose assets could offer a significant opportunity to those companies with large asset footprints.

While private operators are ramping production, public producers continue to tout discipline even as commodity prices reach 52-week highs. EOG Resources indicated their growth philosophy saying that the company is not going to increase production until demand is recovered to pre-COVID levels. That was echoed time and again by their peers.

Shifting away from earnings, over the weekend, the Colonial Pipeline shut down operations following a ransom-ware cyber-attack. Colonial transports 2.5 million bpd of gasoline over 5,500 miles from the Gulf Coast to Atlantic Seaboard states, terminating at the New York harbor. It's large and important. Currently the company is working on a plan for restart. Some lateral lines are now operational. We expect East Coast gasoline prices to rise marginally with gasoline imports from Europe increasing to minimize any volume disruption. If the shutdown extends past a week, we believe more meaningful prices increases may persist.

Note, Colonial is privately owned among a group of investors, with Shell Midstream holding the largest public interest at 16%.

We've long pressed energy and power companies to have comprehensive cyber-security policies. It's part of our ESG assessment. Our energy infrastructure companies invested significantly in cyber-security over the past decade and continue to do so. Colonial's incident only underscores this importance.

We also recently published our 2021 Essential Playbook for Midstream Management as well as the 2020 Scorecard. Both pieces are on our website, with a link included in the transcript of this podcast (https://tortoiseecofin.com/expertise/energy/). We're really encouraged about the progress made, specifically along the lines of free cash focus and the strides made in ESG. First quarter earnings are clear evidence of the efforts midstream companies are making.

This week we largely wrap up first quarter earnings, receive April's inflation number, and start turning attention to some early summer energy and power conferences. 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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