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 Tortoise.

What started as a quiet week turned rather exciting following the Wednesday Fed meeting where the dot plot moved higher by 50 bps by the end of 2023. This clearly surprised the market which is realizing that maybe inflation isn't that transitory after all. In that vein, the Fed increased their 2021 inflation forecast by about 1% to a little over 3.25%. Speaking of inflation, the latest PPI print came in higher than expected for May at .8% bringing the trailing 1 year number to a record 6.6%. I'm particularly interested in this data point since many pipelines transporting liquids like gasoline increase their tariff annually indexed to the PPI level and even if the price level didn't increase any further from here it results in a 7.3% increase next year and if prices continue to rise it could be fair bit higher than that.

Shifting to the regulatory front a couple of interesting developments to highlight. First, a federal judge has blocked the Biden administration's suspension of new oil and gas leases on federal land and waters. This is temporary pending the final resolution of the case but an interesting takeaway is trying legislate through Executive Order, while efficient, is not always effective. Next up is positive news for Enbridge: the Minnesota Court of Appeals issued an opinion upholding state agency issuance of key permits for the Line 3 replacing project which adds about 400,000 barrels per day of oil capacity from Canada into the US. The key point is it demonstrates, similar to the Dakota Access situation, that Biden doesn't appear to want to get involved in ongoing pipeline disputes.

In company news, it was actually a more active week than we typically see mid-June. The most interesting item to me was the announcement of a partnership between TC Energy and Pembina to develop a carbon infrastructure network in Alberta. The system will use some existing pipeline and a newly developed sequestration hub making it cost effective with a planned capacity of 20 million tons of $C0_2$ per year. To put that in context, Canada has an emission goal of at least 40% reduction off 2005 levels by 2030. This project alone is about 10% of that desired goal showing just how effective carbon capture is in reducing carbon. Further, it demonstrates the point we've been making that steel in the ground and existing rights of way have value in the energy transition. Companies have demonstrated over and over in the last 100 years that if an asset becomes underutilized it oftentimes can be converted to provide a different service.

Another item that garnered more addition from the market was the Reuters report that Shell is considering a sale of its Permian basin holdings. The buyer pool would be pretty limited here due to the scale of their position at over a quarter million acres which produced 250,000 bpd in 2019 with an estimated value around $10B. Interestingly, the properties are in a 50/50 joint venture with Oxy following their acquisition of Anadarko but I doubt Oxy has much appetite to buy them since they are still digesting that Anadarko acquisition!

The question raised by the news is why would Shell want to sell these assets it previously identified as of core part of its strategy? I think it speaks to the political pressure the company is under to decarbonize its business. As a reminder, a few weeks ago a Dutch Court order the company to cut its emission 45% by 2030; faster than it had previously planned. One observation with this is while it may look great for the Netherlands it doesn't necessarily help address the global issue of carbon emissions and may even make it worse. I strongly believe in engagement over divestment. We know Shell is a responsible, environmentally conscious operator. The assets will be sold to the most attractive bidder not necessary the safest or most emission sensitive bidder. So in a global environmental framework the Dutch Court may be moving us backward in this case. Just my two euros.

And last but not least, in the latest round of the bidding war for Inter Pipeline, Brookfield came back with a small sweetener in their offer pending the successful challenge to the breakup fee with Pembina. Exciting times.

I'll leave it there for now, thanks for listening.

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