TortoiseEcofin QuickTake Podcast

July 19, 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.

Broad energy market slid 7.7% last week as concerns about the spread of the COVID-19 delta variant raised concerns about the timing of a full economic reopening, particularly for Asian countries. So far, global energy demand continues to improve with European demand growth offsetting a pause in the Far East. Midstream stocks did not fair much better slipping about 5%. If the reflation trade is best characterized by the Russell 2000 index, it took a week of vacation as it also fell 5%. We'll be keeping our eye on the speed and ultimate harm caused by the delta variant and the progress of vaccinations for the reflation trade to resume.

When we left oil markets last week, there was uncertainty about OPEC+'s ability to reach an agreement, with a general desire to increase supply by 400 mbpd each month and extend the agreement through 2022. Abu Dhabi also sought to increase its baseline production level to 3.8 million bpd. In a compromise, where details are still seemingly being finalized, OPEC+ agreed Abu Dhabi can increase its baseline to 3.5 mmbpd. This agreement should reduce supply uncertainty through at least the end of 2021, resulting in less volatile crude prices.

In a strategic transaction last week, Plains All American and Oryx announced a merger of their Permian Basin crude oil gathering assets, the region's two largest. The new joint venture will be owned 65% by Plains and 35% by Oryx. For Plains, the benefits include: the ability to move some Oryx volumes onto Plains' long haul pipelines and increased relative economics if free cash flows reaches certain thresholds. We think the transaction is a modest positive as it results in a more efficient use of Permian transportation.

In another deal, Energy Transfer and the government of Panama announced an interesting pursuit. Traffic through the Panama Canal continues to increase causing bottlenecks, particularly for energy commodities like LNG and Liquefied Petroleum Gas or LPG. The memorandum of understanding signed for the Trans-Panama Gateway Pipeline explores constructing an LPG pipeline across Panama to transport product between the Atlantic and Pacific Oceans. Stay tuned as the creative idea is explored.

In M&A news, Brookfield increased its offer for InterPipeline to C$20.00 from C$19.50 per share, or to C$6.85 billion. As a reminder, there is a competing offer for Inter Pipeline from Pembina. Pembina indicated it does not currently intend to raise its offer, making the ultimate outcome more uncertain. The competing offers confirm the long-term strategic nature of Inter Pipeline's assets as they transport and store crude oil and process natural gas liquids in Western Canada.

Kinder Morgan announced an energy transition acquisition, agreeing to purchase Kinetrex, an RNG developer, for $310 million. Kinetrex owns a 50% interest in a landfill RNG facility, has three RNG facilities under development and two small-scale LNG production fueling facilities. With all facilities on-line, Kinder expects to produce 11 mmcf/d of RNG. The company estimates the purchase price plus developmental capex represents < 6x 2023 EBITDA. With landfill gas having a 50-year life and the potential for Kinder to make RNG a major business line, we like the deal.

Energy companies continue to make greater efforts toward decarbonization. Equitrans Midstream announced the company will purchase carbon offsets for its Mountain Valley Pipeline operations. Specifically, Equitrans will offset Scope 1 and 2 carbon dioxide and methane emissions associated with compressor engines, methane leaked during operation, pipeline maintenance, and purchased electricity. The offsets will come from methane abatement in Virginia coal mines and remediating abandoned natural gas wells.

And Chesapeake Energy announced a new collaboration with MiQ and Equitable Origin to provide independent emission certification of its natural gas production in both its Gulf Coast and Appalachia operations. This supports Chesapeake's pledge to reduce methane intensity to 0.09% by 2025, and to achieve net-zero direct greenhouse gas emissions by 2035.

I think last week can be characterized in one word – cooperation. Cooperation between intra-basin operators, the public and private sector, operators and verification agencies, energy and the environment, and the members of OPEC and Russia.

Ultimately, we expect cooperation to be great for long-term returns and look forward to see these efforts and others bear fruit over the next decade.

This week kicks off energy second quarter earnings, with Kinder Morgan reporting on Wednesday. Overall, we anticipate another strong earnings season and for Kinder, we'll look for updates on refined product demand, natural gas supplied, and capital allocation. We'll be back next week with what we learned. 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.

The S&P 500® Index is a market-value weighted index of equity securities.

Midstream = 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).

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.

The Russell 2000 index measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which itself is made up of nearly all U.S. stocks. The Russell 2000 is widely regarded as a bellwether of the U.S. economy because of its focus on smaller companies that focus on the U.S. market.

The indices are the exclusive property of TIS Advisors, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by TIS Advisors and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Through our family of registered investment advisers, we provide investment advice to related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, we stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*