TortoiseEcofin QuickTake Podcast

September 20, 2021

Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and I am happy to host this week's QuickTake Podcast. In energy markets we are still feeling the effect of Hurricane Ida. Onshore, only 5% of the nation's refinery capacity is offline. For Gulf of Mexico oil and gas production is it a different story. Thirty percent of production remains offline as of last Friday, better than the seventy percent from the previous week but still meaningful. On the pandemic front, daily cases in the U.S. continue to rise while the vaccination rate is declining. A return to school around the country has been encouraging, but the current infection trends are foreboding. New cases in India and Europe appear to have flat-lined at a lower level, which is welcomed as they were two of the market's main concerns over the summer. The pandemic's impact on the economy is something we will be watching closely as it could impact energy demand. Now let's look at market performance for the week.

Markets were mixed:

- The Alerian MLP Index finished up 0.2%, and is up 35.8% year to date
- Other energy stocks, represented by the Energy Select Sector Index, were up 3.3% for the week
- In broader markets, the S&P 500 lost -0.5% and the ten-year treasury yields were basically flat, finishing at 1.36%

The House Ways and Means Committee released it mark-up of the "Human Infrastructure" bill last week. The price tag was near $3.5 trillion and much of the focus was on climate change and higher taxes to pay for it. This is the Democratic House's first proposal, and we expect much bargaining over the coming months. Our initial take is that this bill will not come into law in its current form as Senators Manchin and Sinema are against it in both scope and scale. We were encouraged by the inclusion of measures to expand the definition of qualifying income for publicly traded partnerships to include renewable energy and carbon capture. If those measures are ultimately included in a final bill it could bring new fund flows to the midstream MLP space as they could now make meaningful investments in these ESG-friendly areas.

Frequent listeners know that we hold the view that traditional energy companies are going to the lead the transition to a lower carbon economy. This week is no different, except to say that the pace of traditional energy participating the in the transition seems to be accelerating. Oil major Chevron was perhaps the most active last week. The company announced it will jointly study carbon capture, use, and sequestration, or CCUS, with Enterprise Products Partners. The two companies will work together to asses CCUS opportunities on their respective systems. Additionally, Chevron announced a plan to triple its capital budget relative to energy transition up to $10 billion through 2028. The investments will cover carbon capture, renewable fuels production, and additional hydrogen production capacity. Kinder Morgan announced that it will partner with renewable fuels refiner Neste. Kinder will retrofit existing assets to handle raw materials and feedstocks, renewable diesel, and aviation fuel. The company plans to have 30 storage tanks and associated pipelines in service by 2023. Kinder's efforts are a perfect example of how existing infrastructure can and will be repurposed in a low carbon future. Finally, ExxonMobil announced that eleven companies will support Exxon's previously announced carbon capture hub near Houston. The hub could sequester 50 million metric tons of CO^2 annually by 2030 and 100 million tons per year by 2040.

As mentioned above, renewable fuels will be an important part of a lower carbon economy. However, there is not today the technology to fully replace fossil fuels which means they will have a meaningful role in the economy for decades to come. In fact, OPEC just refreshed its oil demand outlook and it increased its 2022 forecast to 100.8 million barrels per day, up from 100.3 previously. This crude oil demand growth is in spite of projections that renewable fuel demand could grow thirty fold in the next few years. Another reason fossil fuels like natural gas will be required long into the future, the intermittency of renewable power supply from solar, wind, and hydroelectric plants. This was evident in Europe last week as electricity and natural gas prices spiked as the continent scrambled to make up for poor wind resources in September. Electricity prices in the United Kingdom were 700% above their ten-year average, amazing. The problem in the U.K. is exacerbated by a key power cable being knocked out by a fire during the week. There is another example in South America where they have seen low power output from their huge hydroelectric system after a long drought. In Brazil they are bringing in record imports of natural gas to meet the country's power demand.

To bring this all together, the world needs an “all of the above” approach to our energy future, and we need to do it as cleanly as possible. Importantly, we think Senator Manchin agrees with us and he will take a lead role on writing President Biden’s budget bill. That means today’s energy infrastructure companies will have a big role to play for a long time to come. With that, thanks for joining us and we will be back next week. Please stay safe.

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.

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℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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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