TortoiseEcofin QuickTake Podcast

November 8, 2021

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.

The big items to cover from last week are OPEC, earnings, and methane rules.

Starting with OPEC it was pretty much right as expected. The group has decided to continue with the previously announced 400,000 bpd of incremental monthly supply. In an interview after the meeting the Saudi Oil Minister stated that "oil is not the problem" instead "the problem is the energy complex is going through havoc and hell". As far as I can tell he didn't elaborate directly on what the comment meant but he did go on to explain that he views the energy crisis as insufficient supply of natural gas and related infrastructure. This comments were being made at the same time that 20 counties made pact at COP26 to end fossil fuel funding. Similar to the Minister's comments I didn't understand exactly what that meant but it seems we are setting up for some interesting years ahead.

Moving to earnings, there were more calls than I care to count so I'll summarize the good, the bad and the meh. On the positive side, we got the coveted beat and raise from the likes of Williams, Oneok and Magellan –there must be something in the water in Tulsa. Other companies that beat for the quarter include Plains, MPLX and Equitrans. ETRN technically raised guidance too but they would have messed up my Tulsa comment and Plains' operations are outperforming guidance but it was offset by the impact of a fire at one of their plants in Canada. Finally, DCP and Targa met expectations for a really strong quarter and raised full year guidance. On the flip side Energy Transfer missed for the first time in a while and pointed toward the low end of their full year range while Genesis missed and lowered guidance yet again and Enterprise financial results were fine but they continue to frustrate investors with a lack of share repurchases despite very high cost of equity and a strong balance sheet (that was my meh). I'm giving the MVP award to Cheniere Energy who crushed it yet again and raised guidance for the 4th straight quarter on my count.
Some key themes thus far include;

- Return of capital – a few companies returned to dividend growth, several were active on share repurchases, we had one special dividend, which I don't love but I'll take it, and nearly everyone further reduced debt
- Operationally, volumes are off the charts with NuStar and Magellan reporting refined product volumes higher than 2019 level and NGL and gas volumes continue at record levels for most names
- On the inflation front companies were quick to point out inflation escalators built into their contracts - in many cases that I wasn't aware of and I've been doing this for a while
- And finally we got a heavy dose of color on clean energy investments with Enbridge leading the pack advancing $100M in new renewable gas investments, partnering with Shell on hydrogen and completion of a hydrogen blending project now feeding into its existing pipes.

Moving on, the White House released a comprehensive methane action plan which calls for the US to reduce total 2030 methane emissions 30% from a 2020 baseline. I see this as a positive for the energy industry. It encourages behaviors that are just good business. To this point, the American Petroleum Institute has expressed support for methane regulations. Historically it's been the small private producers fighting against them. Here's why, an estimated ~2M abandoned (no longer producing commercial volumes) wells exist in the US which have not been plugged. The plan proposes additional regulation requiring permanently capping the wells which will be costly and mostly borne by the small private operators who own them. Moving to energy infrastructure, the proposal calls for companies to increase investment in monitoring equipment, shutoff values and electric vs gas compressor stations. Public midstream companies are already taking these actions voluntarily to advance their sustainability efforts and reporting on the progress in annual sustainably reports. The plan also calls for regulations limiting flaring on Federal lands. Honestly, I was surprised that these rules didn't already exist for government land. Finishing up on this topic, the plan also contains incentives to capture methane from agricultural and landfill sources. I won't bore you with all the details but the punchline is capturing methane from landfills and agriculture will result in an acceleration of the already rapidly growing supply of renewable gas which we see as a boon for the industry. Public energy companies are already investing here and getting paid to do so will be great. And as a side note our firm also has strategies investing directly in private RNG projects – shameless plug. For humor the largest agricultural methane source is "enteric fermentation" which is a fancy way of saying the digestive process of cattle. A few months ago I read about a company that has designed masks for these poor cows to wear which will effectively capture their "enteric fermentation". I sure hope this doesn't turn out to be the proposal but I guess it would be better than banning cheeseburgers.

I leave it there, 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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