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.

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. Last week Brian covered the advent of the Omicron variant of the COVID-19 virus. The variant has been identified around the globe and in multiple states, from Hawaii to New York, and community spread appears to be occurring. Vaccinated people who have contracted the Omicron variant have exhibited mild symptoms, but there is too little data to assess the severity of this new strain. Scientific assessments of the contagiousness and mortality of Omicron will be forthcoming in the next few weeks. Subject to that information, the economy appears to be continuing its march towards recovery. The jobs report released on Friday was mixed, but labor force participation hit pandemic highs and the unemployment rate fell to 4.2%. With that, let's look at market performance last week.

Markets were weaker on the Omicron news:

- The Alerian MLP Index was down -4.5%, but the Index is up 35% year to date
- Other energy stocks, represented by the Energy Select Sector Index, were down -0.8% for the week
- In broader markets, the S&P 500 lost -1.2% and ten-year treasury yields declined, finishing at 1.34%

Policy developments continue to grab investor attention as the Build Back Better bill grinds towards a conclusion in Washington. Having passed the House, Senator Manchin is working through his final machinations, apparently focusing on energy-related items. The House version of the bill contains increased fees to lease acreage for oil & gas development on federal lands and waters. There are also penalties for excess methane emissions and incentives for renewable power. While his vote is crucial, we have not heard much from Senator Sinema recently which may be cause for concern. Senate leadership is suggesting that there will be a vote on the bill in the middle of December. More pressing is the continuing resolution to fund the government and avoid a shut down. The house passed a resolution with one republican vote and the Senate passed the bill with 69 votes after some concern that certain Republican senators would hold it up over the Biden administration's vaccine rules. In the end Congress kicked the can down the road and will fund the government into February of next year.

In the energy patch the big news last week was around the OPEC+ meeting. The vast majority of analysts covering the meeting expected Omicron and the release of crude oil from strategic reserves that Brian discussed last week to give the group justification to delay their plan to increase production in January. Instead, OPEC+ stayed the course and will bring back 400,000 barrels of capacity to the market next month. Kudos the team at Citi who got the call right, and the market received the surprise well recovering after an initial drop in price. In hindsight several analysts attributed the move as geopolitically driven. The additional barrels removes some pressure on the Biden administration to reach a nuclear deal with Iran which would bring back Iranian oil to the market and likely lower prices. Additionally, Russia's role in the decision may have helped lower political pressure between the U.S. and Russia over Ukraine. One additional element of the OPEC+ move is that they are keeping last week's meeting in session. This will allow them to address any demand issues immediately, instead of waiting for their next regularly scheduled meeting.

There was some noteworthy company news last week. Importantly, the long awaited acquisition of Enable Midstream by Energy Transfer finally closed after an extended delay by the Federal Trade Commission. This leaves CenterPoint Energy, the principal seller of Enable, with 200 million units of Energy Transfer. Listeners may recall that CenterPoint previously entered into a forward sale agreement with several investment banks to sell 25% of their position upon close. British Petroleum announced a green hydrogen project to sit alongside its previously announced blue hydrogen plans at Teesside in the United Kingdom. The combined projects could help meet 30% of the UK's 2030 hydrogen goals. BP also announced it will acquire a minority stake in Gasrec, a UK-based renewable natural gas provider; yet another example of traditional energy companies investing in renewables and the energy transition. ExxonMobil updated investors on its outlook last week. Exxon announced a plan to reduce corporate scope 1 and 2 emissions 20-30% by 2030. It also announced that it had already met its 2025 emissions target this year, four years ahead of schedule, and a plan to meet the World Bank Zero Flaring initiative by 2030. Interestingly, the market did not welcome these announcements, apparently looking for another aspirational net zero by 2050 pledge. While bigger may be better when it comes to emissions reduction announcements, we think practicable, achievable short-term goals are incrementally positive and we welcome them. Additionally, Exxon updated its free cash flow after dividends estimate for the next five years to $100 billion, up from a previous estimate of $30 billion. In regulatory headlines, Enbridge was in the news on several fronts. The company's efforts to replace its current tolling arrangement for its Mainline system with long-term contracts may have been stymied by the Canada Energy Regulator last week. Enbridge wanted to contract 90% of the pipeline's capacity, which the regulator deemed too high as it would limit equitable access for smaller shippers. This effort is not concluded and we expect talks to continue. Enbridge's Line 5 expansion is now operational and only one legal challenge remains. The state of Michigan's challenge in federal court to the Line 3 expansion was dropped, but the challenge in state court remains. There is some concern that if Michigan prevails Line 3 could be shut down, but the likely outcome if the state prevails would be a referral back to the Army Corps of Engineers to reassess the plans. While this may seem like a lot of activity on the regulatory front for Enbridge, it actually is just the status quo as these issues have added uncertainty to the name for several years and will likely drag out longer still. Finally, TC Energy held an analyst day last week. They announced an increased project back log of $29 billion through 2026 and an expectation to add $5 billion in new projects annually. This spending is expected to drive 5% yearly EBITDA growth. Of note, TC described their business as being at the nexus of the molecule and the electron. This highlights the vast opportunity for energy infrastructure companies to participate in the energy transition and the inevitable growth of electrification in the economy.

Later this week a large industry conference kicks off and we expect news from midstream, utility, and renewable companies to come from 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.

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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 basis (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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