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, President of Tortoise.

I'll start with Wednesday's House hearing entitled "Gouged at the Gas Station" which would make an outstanding Saturday Night Live skit by the way. At the hearing executives from Exxon, Chevron, BP and more testified before Energy and Natural Resources Committee about high energy prices. Based off the title I'm guessing these guys knew they were in for a tough meeting. In case there was any doubt a tweet from Senator Manchin the day before cleared things up saying "I pray to God they don't come on corporate jets". Well they didn't, in fact they all joined virtually. See even these guys can't afford fuel. I listened to bits and pieces. The key points focused on:

- First, the witnesses calmly explained they don't "set" commodity prices; it's an enormous global market impacted by literally countless buyers and sellers
- With that macroeconomic principal sorted out, focus shifted to why they can't increase production immediately where 3 factors were cited
    - On the permitting front, the overwhelming majority of feedback was new pipelines can't get built to bring product to market
    - Also, a lack of labor, equipment and raw materials were noted as key constraints
    - Finally a lack of capital supply, partially due to a hostile regulatory environment, has led to exorbitant cost of equity capital
- One editorial comment on that last point, it seems counterproductive that while grilling the witnesses about high prices and why they weren't producing more oil, House members continually called for eliminating our country's dependence on oil, not exactly the messaging that will encourage additional investment

Moving on, we are starting to see potential early responses to high prices in the weekly Department of Energy (DOE) inventory report. First, estimated US production increased 100,000 barrels per day while gasoline demand showed a second consecutive week of soft demand. These data points are real time and therefore estimates that get revised but it's worth watching to see if the trend continues. As expected, the DOE also reported another large weekly release of oil from the strategic petroleum reserve.

On top of the additional US release the IEA announced another 60 million barrels will be drawn from their strategic stockpiles. Similar to the US, this will likely provide modest short term relief that will be more than offset by a negative ongoing impact of a smaller safety buffer to manage the ongoing supply shortfall relative to demand.

Moving to natural gas, new LNG activity continues at a feverish pace with the latest being (SRE) entering a Heads of Agreement (HOA) with multiple parties including Total and Mitsubishi for the development of Cameron LNG Phase 2. The HOA is nonbinding but provides the commercial framework for Cameron's expansion calling for adding a fourth export train and increasing the production capacity of the three operating trains through debottlenecking activities. The agreement allocates half the fourth train's capacity and 25% of projected debottlenecking capacity to SRE under tolling agreements, with the remaining capacity allocated equally to the existing Cameron LNG Phase 1 customers. SRE plans to sell its capacity under long-term sale and purchase agreements prior to Final Investment Decision.

Additionally NextDecade executed a 20 year sale and purchase agreement with ENN Energy Holdings supplied from their planned export facility in Brownsville TX. The project is expected to start commercial operations as early as 2026 pending a positive final investment decision later this year. A unique aspect of this project is it contemplates integrating carbon capture at the facility to eliminate emissions associated with its operations.

Speaking of LNG and Asia, I read a story recently on my Bloomberg terminal where, according to data from Global Energy Monitor, Asian nations have more the $350B of gas infrastructure projects underway including import terminals, pipelines and power plants. The projects target using primarily US gas to reduce Asia's dependence on coal which cuts C02 over 50%, a critical tool to achieving global emissions goals. As you can imagine the majority of investment is in China where over 30 LNG import terminals are under construction. The bottom line is between reducing Russian dependence for Europe and coal dependence for Asia an absolutely massive call on US gas exists over the next several years. I leave it there for now, 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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