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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.

Last week inflation came in hot again with the CPI reaching a new four-decade high in June, climbing 9.1% year-over-year. That led to an expected steeper interest rate move by the Fed and greater odds of a recession. No surprise that markets were weaker with the broader market S&P 500 and midstream (as measured by the AMNA) down about 1%. Broader energy fell further at 3% as crude oil slipped nearly 7%. A stronger dollar and fears of softer energy demand weighed down oil despite OPEC seeing demand higher in 2023 by 3.4 million barrels per day (bpd) and OPEC members continuing to lag on production commitments.

On the policy front, recall clean energy, along with some support for traditional energy, was a big part of the BuildBack Better proposal last fall. Senators Manchin and Schumer were reportedly working over the past several months to revise it with a potential passage before the November elections. For midstream, possible provisions that could have been incorporated included opening of the MLP structure to clean energy. Last week, Senator Manchin said he no longer favors including energy, clean or otherwise, or tax increases as part of a reconciliation bill, at least until he sees the July inflation numbers and what the Fed does on interest rates at its late July meeting. We'll continue to wait and see though the odds of getting dollars for energy over the next term are lower. At a minimum, expect an extension of existing policies, like production and investment tax credits for wind and solar energy, to be passed during the lame duck Congress between November and January.

LNG contracts continue to be signed. Sempra announced a 5 mtpa non-binding LNG export contract with ConocoPhillips for a potential Port Arthur facility. Sempra is planning for the new liquefaction plant to have a capacity of 13.5 mtpa. This contract brings the total signed to 9.7 mtpa or to just over 70% of capacity. Expect Port Arthur to move up the pre-FID list in terms of probability of an ultimate FID.

Not stopping there, the LNG sector saw two more contracts announced with Mexico Pacific LNG and Delfin LNG. The counterparties were Shell, with a 15 year contract at Mexico Pacific, and Vitol, with a 20 year contract at Delfin. Further, Germany approved expedited construction for the first of four natural gas import terminals, with an in-service date in early 2023.

Operationally, Oneok's Medford Oklahoma fractionator caught fire last week and is likely to remain out of service at least through year-end. Total capacity at the plant is 210 mbpd, relative to Oneok's total frac capacity of 980 mbpd. Between some available capacity at other plants and storage, natural gas production impacts should be limited. We'll wait for further updates from the company on the financial impact.

Inflation continues to be high with last week the PPI for finished goods index indicating a rise of 18.6% for June, year-over-year. This is the index tied to liquids pipeline index rates. Based on data through June, it implies over a 15% increase for the next escalator going into effect July 1 of 2023. No doubt a nice tailwind for liquids pipelines.

This week, second quarter midstream energy earnings kick off with Kinder Morgan on Wednesday. We expect a good earnings quarter with companies having sensitivity to commodity prices, particularly natural gas, poised to beat. We expect to hear discussion about second half production expectations given this year was back-end loaded and are anxious to see if companies bought back stock recently given stock price weakness. For Kinder, we expect an in-line quarter and believe we'll get an update on a Gulf Coast Express pipeline expansion to bring more natural gas from the Permian to the Gulf Coast. We'll be back next week to tell you what happened. 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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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 basis (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.

LNG = Liquefied Natural Gas is natural gas that has been cooled to a liquid state for shipping and storage - the volume in this state is about 600 times smaller than in its gaseous state and has the ability to be transported for much longer distances when pipeline transport is not feasible.

Producers = Tortoise North American Oil & Gas Producers IndexSM

The Tortoise North American Oil & Gas Producers IndexSM 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.

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