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.

We attended the Citi Energy conference last week and the big topic was the Inflation Reduction Act being signed into law. We have covered this in detail before but the key oil and gas highlights are a 15% minimum tax which is marginally negative for the bigger midstream c-corps, a methane tax though most companies believe they are already under the threshold and sweetener for energy transition investments including carbon capture and biofuels increasing the attractiveness of these investments. Also topical was the industry's ability to source enough natural gas to meet export demand which is now estimated to more than double. The obvious answers are the Permian, Haynesville and Eagle Ford but without additional Marcellus infrastructure things get a bit tricky.

Moving on, the laser focus on energy security continues to grow globally. Europe is struggling with a host of issues including recent heat waves, a drought on the Rhine (making energy distribution a real challenge) and, of course, the continued curtailment of Russian gas. As evidence, last Tuesday German power prices hit $500 Euros / megawatt hour which is up 5x over the price from August last year. Even the usually reliable French nuclear fleet is struggling with below normal output. Related, Germany announced a reversal of plans to shut its last 3 nuclear plants due to the crisis. Meanwhile in the US, while the situation is much less dire, California announced proposal to lend $1.4B to PG&E for them to keep two nuclear plants running until 2029 and 2030, respectively. In Texas, the state is relying on large financial incentives to encourage curtailment of consumption. I believe these anecdotes are only going to become more common while the world races to build renewable and gas export infrastructure to replace coal and Russian energy.

On the flip side, we have seen some recent cooling of oil prices driven by the signs of a global economic slowdown as well as progress on a potential Iran nuclear deal. Some additional supply from Iran could be quite helpful later this year as Russian sanctions ramp likely taking more of their exports off the market. Add to this OPEC is producing 2.5 million bpd below their quota demonstrating they seem to be out of spare capacity so some additional supply from Iran may be needed to keep oil prices from getting out of hand later this year and into 2023.

We are pretty much at the tail end of Q2 earnings but a couple reports to mention. First renewable natural gas producer, Archaea. EBITDA was in line for the quarter they missed on production volume and slightly lowered the full year production guide. This appears to be an issue on project timing vs quality. Ironically, full year EBITDA guidance was increased slightly despite a lowering volume due to higher credit pricing. Of note, full year capex guidance was increased 25% but that was due to project backlog growth so we will give them the benefit of doubt for now but keep a close eye on it.

Saudi Aramco reported as well and highlights for them are plans to double natural gas production and grow oil capacity to 13 million bpd. I note however that it is going to take them several years to get there so once again the US is one of the few near term sources of supply.

Last item for this week, Phillips and Enbridge announced a transaction where Enbridge increased their ownership Gray Oak Pipeline from PSX in exchange for part of the interest in DCP Midstream. The net result is Enbridge reduces it commodity exposure while PSX reduces its net short commodity exposure. However, what is most relevant is PSX has offered to buy all the public DCP units as part of the deal. The offer is at last Wednesday's closing price which equates to 7.8x next year's EBITDA and a free cash flow yield of over 16%. We feel the company is undervalued regardless of a transaction so being taken out with no premium isn't very compelling. We've reached out to the company's independent board to share our views so stay tuned.

I'll leave it there for now, have a great week.

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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