TortoiseEcofin QuickTake Podcast

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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.

Markets bounced back last week after the UK made a U-turn on fiscal policy and conjecture the Fed may be less hawkish at its early November meeting. Both the S&P 500 and Alerian Midstream Index improved nearly 5%, and broader energy as measured by the S&P 500 Energy Sector Index jumped 8%.

A lot was made of President Biden's war of words with OPEC+. The President is trying to keep crude oil prices low prior to midterm elections where inflation is the number one issue. To that end, the President announced a 15 million barrel draw from the Strategic Petroleum Reserve (SPR) through December, though this is just finishing up the 180 million barrel pull announced in April. At the same time, the administration said it is not planning to curb any refined product exports. I'd note it is not really the price of crude oil at $85 per barrel that is making gasoline prices at pump higher than he'd like. Prices are elevated due to fact gasoline and diesel inventories are low, refining maintenance season is underway, and we've taken out over 1 million bpd of refining capacity over the past several years.

The President also said the SPR would replenish crude oil reserves at WTI prices between $67 and $72 per barrel. Combined with OPEC+'s desire for Brent prices at or above $80 per barrel, we now have two agencies seemingly putting a floor on crude oil prices. That should give E&P investors even more confidence in the look forward for oil production businesses. And two service companies and a billionaire E&P investor seemed to agree last week.

Baker Hughes kicked off energy earnings with a 7% EBITDA beat following an oilfield services recovery. Baker expects North American drilling and completion spending to be up mid to high double digits next year, with margins at or above current levels of 19-20%. On capital allocation, management plans to return 60-80% of free cash flow in the form of dividends and share buybacks. Sticking with services, Schlumberger followed that with an 8% beat, reiterating a similar outlook on the international side.

Upstream management teams continue to be bullish on their companies. Continental Resources announced a finalized agreement to be acquired by Harold Hamm, the company's founder, chairman, and 83% owner already. The 9% premium to the previous close values the company at $27 billion. Note, Continental is the largest producer in the Bakken and in Oklahoma's Anadarko Basin and the tenth largest in the Permian. Mr Hamm indicated a part of his reason for taking the company private is his optimism and desire to have the freedom to invest for higher levels of production. The buyout should be good for those pipeline companies transporting volumes from Continental's wells.

Kinder Morgan kicked off midstream earnings last week. Unlike the last two quarters where there was a beat and raise, Kinder came up just short of expectations in the third quarter, though still expects to exceed its initial 2022 EBITDA guidance by 4-5%. Notably weaker were refined product volumes which were down 2% yoy overall. Looking closer at each product, gasoline volumes fell 3%, diesel 5%, with jet fuel surging by 11%. While refined product volumes were weaker, gathering volumes continue to exceed expectations, now higher by 13% yoy, led by sequential volume growth in the Bakken by 14%, Haynesville by 8% and Eagle Ford by 7%. Management also indicated that while they're seeing cost inflation, it is only at about half the rate of the Producer Price Index. On LNG, Kinder indicated they currently move about 50% of all natural gas consumed by LNG facilities and that they expect to maintain or even growth their market share as more facilities come on-line over the next several years – a great tailwind in their natural gas transport business. On capital allocation we were happy to see Kinder repurchase another $93 million in stock since the 2Q release. So read-throughs to the rest of the sector are: likely more of an in-line quarter with refined product transport volumes soft and natural gas gathering strong, with companies using the late 3Q sell-off as an opportunity to buy-back shares.

Going back to earlier this year and last, Kinder Morgan purchased a couple RNG companies. Staying with that theme, last week BP announced it is acquiring Archaea Energy, arguably the RNG industry leader, for $4.1 billion or at a 38% premium to Archaea's previous close. Combining BP's existing bioenergy business and financial resources with Archaea's strong development backlog creates a strong RNG platform. The acquisition is also a pivot by BP to industrial decarbonization, an area we think will see an accelerating focus for energy infrastructure companies.

Sempra Energy took another positive step toward a final investment decision (FID) of phase 1 at its Port Arthur LNG terminal, announcing the company finalized its EPC contract with Bechtel. The cost for the greenfield LNG facility will be $10.5 billion, 17% higher than the initial cost estimate from several years ago. All in all, in-line with expectations, and a good read-through to Energy Transfer and NextDecade's upcoming EPC finalized pricings. The next steps for Sempra are finalizing commercial agreements and obtaining financing. We expect a final investment decision as early as 1Q 2023. Stay tuned.

This week third quarter earnings announcements really accelerate. We'll be back next week to report on them. 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.

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.

Liquefied Natural Gas (**LNG**) is a 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 it's gaseous state, able to transport for much longer distances when pipeline transport is not feasible.

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).

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

Renewable Natural Gas (**RNG**) is a biogas that has been upgraded for use in place of fossil natural gas. It has multiple uses including thermal applications, generating electricity, vehicle fuel or as a bio-product feedstock.

The S&P 500® Index is a market-value weighted index of equity securities.

West Texas Intermediate (**WTI**) is a light, sweet crude oil commonly referred to as "oil" in the Western world. West Texas Intermediate is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

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