TortoiseEcofin QuickTake Podcast

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Hello I am Matt Sallee, President of Tortoise.

I will start with a minute on the oil market where I find an interesting juxtaposition between the bullish developments in the physical market vs the somewhat bearish futures market. On the physical side, in its latest monthly report, the International Energy Agency stated that global oil inventory is at the lowest level since 2004. Additionally, they expect Russian production to drop 2 million barrels per day (BPD) in 2023. Add to this, as we have been forecasting, the Department of Energy Strategic Petroleum Reserve release shrank further last week to 1.4 million barrels. As a reminder, this compares to roughly 6M barrels per week during the 3rd quarter and a total of over 200 million barrels this year which will have to be refilled at some point. This coincides with stubbornly slow US production growth and OPEC's continued struggle to produce at their stated quota. In contrast, the oil price dropped 11% over the last four weeks and net long positions in the futures market have dropped 45% since their mid-January high. My point is that while the physical market is tight the bets on higher oil prices are relatively low so, if sentiment shifts, we may be in for a gap higher. To be clear, I'm not rooting for a higher oil price; in fact, despite a very modest gain in crude price so far in Q4, energy equities have continued to rerate, currently up 26% in the quarter.

Moving to company news I have a few items to highlight:

The LNG market is keeping up its fast pace of development with Sempra announcing a partnership with ConocoPhillips for its Port Arthur export facility including 3 components:

- First, a 20-year sale and purchase agreement (SPA) where COP will take about 40% of the Phase 1 capacity
- Next, Conoco is acquiring 30% of the equity in Phase 1 of the project
- Finally, a natural gas supply management agreement with COP sourcing the required gas for Phase 1

Separate from the COP deal, Sempra announced a SPA with Ineos for another 10% of this project's capacity adding yet another European customer for US LNG.

Up next, New Fortress finalized an agreement with Pemex to provide a floating LNG export facility to service their production from a gas field off the coast of Veracruz in Southeastern Mexico. The floating LNG export unit is one of five New Fortress plans to deploy in the next two years, adding approximately 7.0 MTPA of incremental liquefaction capacity to the global market. For context this is more than half of the world's total expected capacity additions during the 2023-2024 period.

Moving to the renewable fuels front, Shell joins the chorus of energy majors investing big in waste to energy with the acquisition of biogas producer Nature Energy for $2B. The deal makes Shell Europe's biggest producer of renewable natural gas and follows the BP recently announced $4B acquisition US landfill RNG producer Archaea and Chevron's $3.2B purchase of renewable diesel producer Renewable Energy Group.

North of the border both TC Energy and Enbridge shared company updates last week. TRP hosted an analyst day which was not well received and the stock traded off nearly 7% on the day of the event. The key investor pushback is capital spending and they are in a class of their own on this front. At a time when most midstream companies have reigned in spending in favor of returning cash to shareholder, TC expects to spend a whopping $9.5B in 2023 for the second year in a row, sporting a total backlog of $34B. Furthermore, concern is growing around the returns that will be earned on the investments, particularly the Coastal Gaslink pipeline where the current cost is about 70% over the original estimate. Add to this they couldn't give firm number on what the project ultimately will cost and you have a recipe for a rough trading day. For Enbridge the update was less exciting; the company provided 2023 guidance which was right in line with market expectations for 6% EBITDA and 3% dividend growth. I'm encouraged by another announcement they made on a partnership with Oxy Low Carbon Ventures to explore development of a CO2 hub near Corpus Christi where ENB will develop pipelines and Oxy the sequestration assets to serve emitters in the area.

Finishing up with OPEC's latest meeting, with the ongoing uncertainty around the effect of the $60 Russian price cap, the group has opted to hold the production quota at its recently reduced level for the time being.

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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.

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

Renewable Natural Gas (**RNG**) is 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.

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