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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.**

If you went away on vacation for the month of August, you didn't miss much in terms of stock performance. Broad energy (as measured by the S&P Energy Select Sector Index) and West Texas Intermediate oil prices both inched higher by about 2%, midstream (as measured by the Alerian Midstream Energy Index) was even, with the S&P 500 down 1.6%. Nonetheless, August was full of news with companies reporting 2<sup>nd</sup> quarter earnings, M&A activity continuing, and the oil market tightening even more. Let's get to it.

Midstream second quarter earnings were mostly in-line, with annual guidance reaffirmed and most holding the line on capex. Interstate natural gas pipelines experienced strong volumes and a good re-contracting environment. Natural gas storage also saw a good opportunity for improving long-term contracts. Gathering and processing volumes were mixed, with the Permian mostly higher, and the Haynesville and Bakken more company dependent. Refined product volumes were flat, diesel down with jet fuel up and gasoline neutral. Companies with more commodity price sensitivity in revenues felt some impacts of lower prices, though that was offset by good business fundamentals. Free cash flow priorities generally were high return and low risk capex first, followed by debt paydown, dividend and distribution growth, and finally share repurchases. For the quarter, share buybacks were strong, topping \$1.1 billion with companies particularly active following debt ceiling concern stock price weakness.

M&A activity continued, this time with an MLP acquiring another MLP as Energy Transfer (ET) announced it would acquire Crestwood Equity Partners (CEQP) in a stock for stock transaction at no premium. Energy Transfer believes Crestwood's Bakken and Permian assets complement its existing asset footprint well. Further, the transaction is leverage neutral, immediately accretive, and Energy Transfer expects to achieve at least \$40 million in cost synergies. Importantly for the vote, the transaction is tax-efficient to Crestwood unitholders. It is expected to close in the fourth quarter.

Producers also found value in M&A. Permian Resources (PR) announced the acquisition of Earthstone Energy (ESTE) in an all-stock deal valued at \$4.5 billion. The price is an 8% premium to the 20-day volume weighted average share price. The transaction enhances Permian Resources' Delaware Basin size and scale and will be accretive across all financial metrics, even before including \$175 million of synergies.

Oil prices seemingly drive the broader energy market. On the supply side, US crude stockpiles over the last four weeks drew over 20 million barrels, gasoline stocks were unchanged with distillate stocks down slightly. Globally, inventories are near a six-year seasonal low following OPEC+ production cuts and healthy demand. We expect inventories to be supportive for prices in the second half of 2023 and into 2024. Prices will continue to be partially dependent on Saudi Arabia continuing its voluntary production cuts of one million bpd. The Saudis seemingly are targeting a price around \$80 per barrel, not too high to crimp demand, yet high enough for producers to continue investment in new production. Also worth watching are potentially new supplies from Iran or Venezuela should they receive sanction relief.

The biggest notable energy price increase in August was for LNG. Specifically, LNG prices to Europe surged 15% as labor unions representing Australian LNG workers threatened to strike. As last reported, workers at Woodside appear to be agreeable to a deal, though Chevron LNG workers at both the Gorgon and Wheatstone facilities, representing 5% of global LNG capacity, have not yet agreed to a deal.

Looking ahead this month, the conference circuit ramps up again, starting with the Barclays Energy Conference in the first week of September. Expect a lot of discussion around what is the proper capital allocation, potential cost deflation, and positioning for LNG export growth. And the Oneok / Magellan vote is set for September 21<sup>st</sup>. With the spread down to 3% as of September 1, the deal is priced much more likely than not to be approved. At a high level, we're seeing growing free cash flow being prudently allocated. Consequently, we're excited about the sector's potential returns this fall. Thanks for listening and your trust in us.

**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](mailto:info@tortoiseecofin.com).**

**Broad Energy = The S&P Energy Select Sector<sup>®</sup> Index** is a capitalization-weighted index of S&P 500<sup>®</sup> Index companies in the energy sector involved in the development or production of energy products.

**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 its gaseous state, able to transport for much longer distances when pipeline transport is not feasible

**Midstream = The Alerian Midstream Energy Index<sup>®</sup>** 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).

**MLPs = The Tortoise MLP Index<sup>®</sup>** is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

**Producers = Tortoise North American Oil & Gas Producers Index<sup>SM</sup>**

The Tortoise North American Oil & Gas Producers Index<sup>SM</sup> 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.

**The S&P 500<sup>®</sup> Index** is a market-value weighted index of equity securities.

**West Texas Intermediate (WTI)** is 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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