February 2, 2024

Hello I am Matt Sallee, President of Tortoise.

Well, clearly it is still early in the year, but January picked up where 2023 left off with energy flat while the S&P 500 was up 1.7% despite increasing geopolitical risk but midstream bucked the trend and MLPs, again, outperformed their c-corp peers within Midstream by 4%. Additionally, utilities continued to struggle losing 3%.

We continue to believe the primary driver behind MLP outperformance is M&A with the latest MLP consolidation being the acquisition of NuStar by Energy Transfer (ET) subsidiary Sunoco. Granted it is technically a different management team at Sunoco but ET just completed their acquisition of Crestwood less than 3 months ago. For those investing in MLP only products you may want to consider your allocation mix because you may be missing out on some of the best energy infrastructure companies in North America. For more information on this topic see the Midstream Megadeal piece we published August 23rd last year (hyperlink below) as this deal simply underscores our point of view.

As always, the last several days of January really ramp up earnings season with reports from across the energy value chain and for the most part, so far so good.

In oil field services we've had the big 3 report, Schlumberger, Haliburton and Baker Hughes. The general theme for OFS continues to be the expectation for strong international activity while North America remains subdued. However, just days after they all reported, Saudi Arabia announced it will not proceed with previously announced plans to increase production capacity by 8% over the next few years which could negatively impact the international development outlook.

Similarly, the big 3 refiners, Valero, Phillips and Marathon have reported. The punchline for refiners is continuation of strong results on wide margins and biofuels demand leading to hefty shareholder returns through stock buybacks and growing dividends.

In midstream, Kinder Morgan came in a bit light while MPLX announced a nice beat. For both companies, natural gas gathering and transportation volumes continue to drive growth to feed ever increasing demand for exports.

Finally, NextEra led off the utility space beating quarterly estimates and topping full year guidance. They also reiterated EPS guidance for the next 3 years and emphasized they expect to be at the top end of the range. Their growth is supported by a record year for origination adding 9 gigawatts to its renewable backlog. At NextEra Energy Partners the results weren't so favorable as lower than expected wind generation caused a quarterly miss. However, they continue to expect to achieve their dividend growth targets without issuing equity.

Moving to news, on the LNG front the Biden administration ordered the Department of Energy to halt review of applications for new LNG terminals to allow officials time to adequately review the climate impacts of shipping US natural gas overseas. So ironically, while regulators delay the approval process to study hypothetical future impacts, the Eastern Hemisphere will continue burning growing amounts of coal with twice the emissions, not to mention potentially undermining Europe's resolve to support Ukraine defending itself against Russia's invasion. Interesting strategy.

Moving on, Orsted shockingly ramped up its bet on US offshore wind by agreeing to buy out the Sunrise project from JV partner, Eversource, subject to conditions including the award of a large pending capacity solicitation from the state of New York. For context this comes on the heels of Orsted taking a $4B write-down last year on two New Jersey backed projects it abandoned. When gambling this is referred to as the "double up to catch up" strategy. Meanwhile, Eversource is also looking to exit its JV stake in two other offshore projects near Rhode Island and Long Island as they announced a $1.3B impairment charge related to these 3 projects I've just mentioned.

The hydrogen space also remains a challenge with Plug Power preannouncing Q4 revenue of roughly $200M which is a fraction of prior guidance. The company is growing but its coming at a cost in the form of cash burn which is creating a liquidity issue. Related to this, they also announced the completion of the submission of final term sheet for approval of $1.6 billion conditional DOE loan guaranty, but this process will take time.

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Midstream Megadeal link
https://tortoiseadvisors.com/resources/insights/commentary/a-midstream-megadeal-implications-and-fallout-for-investors/

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.

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 basas (AMNA) and on a total-return basis (AMNAX).

The **Alerian MLP Index** is the leading gauge of energy infrastructure master limited partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX).

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

The **S&P 500® Index** is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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