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Welcome to the Tortoise Capital QuickTake podcast. I'm Matt Sallee with Tortoise Capital.

We kicked off the year with a bang in January on the continuation of the feverish pace of AI related news and the associated need for additional energy supply in the U.S. On this front we've already seen a slew of datapoints supporting our thesis that natural gas has a massive secular tailwind including Constellation's deal to acquire Calpine, NextEra's JV with gas turbine producer, GE Vernova and Chevron's JV with GE Vernova.

Starting with Constellation, they announced a nearly $30B deal to acquire the Calpine who owns the nation's largest fleet of natural gas fired power generation immediately increasing their fleet diversity and ability to quickly respond to the market's demand for near term, dispatchable electricity. On this point the company references expected growth in the Texas (ERCOT) and Northeast (PJM) markets of 80% and 40%, respectively, over the next 10 years. This was a surprising shift as Constellation has had a premium valuation tied to its nearly pure play nuclear fleet, but the deal was well received in the marketplace and the name traded up 25% on the day of announcement.

At NextEra, along with announcing in line earnings and adding 3.3 gigawatts of renewable development to their backlog the company announced a significant pivot in strategy. The company entered a joint venture with GE Vernova to build out new natural gas generation and highlighted they have built more gas fired generation in the country than any other company. This is quite a shift for a company that describes itself as the world's largest renewable developer. To highlight the pace of change in gas adoption over the last several quarters, on their 2023 Q4 results call, the company mentioned gas 3 times with all three referring to existing assets, one of which they were selling. For Q4 2024, gas was mentioned 17 times during the prepared remarks.

Along with embracing gas they are advancing in their efforts for the recommissioning of the Duane Arnold nuclear plant in Iowa. Recently, they submitted a notice to the Nuclear Regulatory Commission (NRC) seeking a change in licensing. This is a key step in establishing the regulatory process to reinstate the plant's operating license, with the possibility of resuming operations by the end of 2028.

Just days later, Chevron, GE Vernova and Engine # 1 partnered to create scalable, reliable power solutions for U.S.-based data centers, using natural gas to generate up to four gigawatts of electricity. The projects will serve data centers onsite to avoid delays from the interconnection queue to the grid. This partnership addresses the growing energy demand from AI technologies while keeping energy costs low and achieving speed to market with the first projects expected by year-end 2027.

Moving to earnings, the noteworthy updates came from Kinder Morgan and NextEra Energy Partners. Kinder Morgan reported new natural gas projects, including the $1.7 billion Trident Intrastate Pipeline project and $1.6 billion Mississippi Crossing, contributing to a 60% increase in project backlog to $8.1 billion. These projects are supported by long term contracts and the company now expects 28 bcf/d of gas demand growth by 2030 or nearly 30% above today's levels.

On the renewable front, NextEra Energy Partners concluded its strategic review announcing a suspension of the distribution to free up cash flow to pay off convertible preferreds they have coming due, and a name change to XPLR Infrastructure though I'm not sure that really solves anything. It's good they have a solution to take out the preferreds but with no distribution and limited free cash flow for the foreseeable future, we think the stock will be stuck in limbo.

In other news, significant volatility was experienced in technology, energy and utilities from DeepSeek's release of a new AI model claiming cost and efficiency breakthroughs. Concerns emerged that U.S. AI firms may reduce capex if they can achieve similar performance with more efficient hardware leading to a reduction in future energy demand expectations. Concerns were quickly alleviated as Meta and Microsoft doubled down on their AI capex on their earnings calls and the Anthropic CEO explained that DeepSeek's tech is effectively last generation so it absolutely should be much cheaper as has been the case with U.S. AI tech for the last few years.

Post month end Trump announced executive orders imposing 25% tariffs on Mexican and Canadian imports with Canadian energy facing a 10% tariff. Canada supplies 60% of U.S. crude, and the tariffs could raise gasoline prices slightly, but demand should remain stable. U.S. refiners will face higher costs, but Canadian oil production and energy infrastructure are unlikely to be disrupted. The situation remains fluid, and the Mexican tariffs have already been delayed a month so we will continue to share our thoughts as new developments come out.

To wrap up, the energy sector witnessed its first big IPO in years with the $1.8 billion initial offering of Venture Global. They are a liquified natural gas exporter which owns two terminals operating or in development with nameplate capacity of 30 million tons/year (mtpa) and future projects with potential to grow capacity to over 100 mtpa.

In summary, energy and power infrastructure continued its march higher in January, capital markets are thawing, and fund flows remain positive continuing last year's trend. This year will probably not be without some periods of volatility, but the outlook is quite favorable. Thanks for listening.

Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.