June 5, 2025

Welcome to the Tortoise 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.

Hello, I'm Matt Sallee with Tortoise Capital.

Performance rebounded nicely in May, with the S&P 500 up over 6%, led by strength in the technology sector. That rally pushed the broad index back into positive territory for the year. The S&P Energy Index was modestly positive, with refiners and gas producers outperforming, partially offset by weaker results from the majors. Meanwhile, midstream and utilities both posted gains of a couple percent. For the year, utilities remain the best-performing sector, and midstream continues to outperform the broader market.

May marked the end of earnings season. Utilities delivered the strongest performance, beating estimates by an average of 4%, led by unregulated power producers who exceeded expectations by 15% on average. Oil and gas producers posted modest beats, while midstream slightly topped expectations. Notably, nearly every segment of the energy sector reaffirmed 2025 guidance—despite tariff concerns and OPEC developments—with the lone exception being oilfield services.
In industry news, the race to expand gas generation capacity accelerated in May. The largest transaction was NRG Energy's $12 billion acquisition of gas plants from LS Power. The deal includes $6.4 billion in cash, $2.8 billion in NRG equity, and $2.8 billion of assumed debt—slightly offset by a net tax benefit. With 13 gigawatts of capacity, this acquisition doubles NRG's gas fleet, adding critical generation assets in the Northeast and Texas. NRG also raised its five-year EPS CAGR from 10% to 14%, underscoring the financial benefits of the deal.

Meanwhile, Vistra announced a $1.9 billion purchase of seven gas plants totaling 2.6 gigawatts of capacity at an approximate 7x EBITDA multiple. Funded with cash on hand, this transaction adds valuable geographic diversity, with assets located across PJM, New England, New York, and California.

These transactions follow Capital Power's April acquisition of 2.2 gigawatts, also from LS Power, giving the company its first entry point into the PJM market.

A common theme across these deals is strategic positioning for growth in gas-fired power, supporting both grid reliability and rising electricity demand from data centers and AI infrastructure.

Moving on, Tortoise had several representatives at the Energy Infrastructure Council Investor Conference in late May. Attendance was strong, and sentiment remained upbeat despite macroeconomic headwinds. Unsurprisingly, natural gas infrastructure companies were particularly bullish on the outlook for their businesses. In fact, we wouldn't be surprised to see earnings growth accelerate for many of them, driven by surging gas demand for both power generation and exports.

The consensus at the conference was that gas and power futures remain well below fair value. On the oil side, the mood was more cautious but still constructive. Most participants expressed confidence in stable production volumes. For those whose producer clients are cutting capex, efficiency gains appear to be offsetting any downside.

One standout moment was the keynote panel featuring Amazon's Head of Energy Procurement. Five years ago, it would've seemed improbable for Amazon to headline an energy conference—but it speaks volumes about how central energy has become to tech. Both Sam Altman and Eric Schmidt have recently stated that energy is the most critical factor in the AI race.

Turning to global markets, OPEC met over the weekend and confirmed plans to increase production by 411,000 barrels per day which was widely expected by the market. We believe this monthly pace of additions will continue. The move is part of a broader strategy to gradually unwind the 2.2 million barrels per day of voluntary cuts that began in early 2024, and to rein in overproduction from countries like Iraq and Kazakhstan. That said, we estimate the actual net increase will be closer to 1.5 million barrels per day, as some members are already producing above quota. Crude oil prices rose 4% on the news, bolstered by renewed geopolitical tensions, including Ukrainian drone strikes on Russian military airbases.

Finally, President Trump recently signed a series of executive orders aimed at revitalizing the U.S. nuclear energy sector. These directives set a target to quadruple U.S. nuclear power generation by 2050 and accelerate deployment of advanced reactor technologies.

Key measures include:

- Requiring the Nuclear Regulatory Commission to approve new reactor projects within 18 months, significantly faster than current timelines.
- Directing the Department of Defense to bring an operational nuclear reactor online at a domestic military installation by September 30, 2028.
- Mandating the Department of Energy to designate sites for advanced reactor deployment—especially those supporting AI infrastructure—and to release at least 20 metric tons low-enriched uranium (HALEU) from its inventories for private-sector use.
- Lastly, transferring select regulatory authority from the NRC to the DOE to streamline project approvals for next-generation nuclear technologies.

Thanks for listening. We'll be back next month with more updates from the energy sector.

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

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