TortoiseEcofin QuickTake Podcast

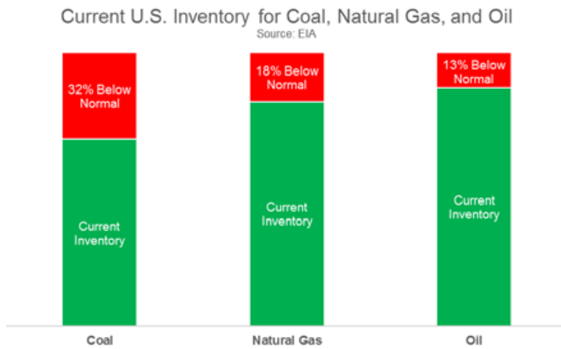
April 18, 2022

Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Hello. I am Tortoise Senior Portfolio Manager Rob Thummel with this week's TortoiseEcofin QuickTake podcast.

Last week was the calm before the storm of the first quarter earnings season for the energy sector that kicks off this week. While the earnings outlook for many sectors in the S&P 500 is clouded by uncertainty tied to supply chain disruptions, rising inflation, and higher interest rates, the outlook for the energy sector is quite sunny as the sector is expected to deliver rising earnings and higher cash flow some of which will be returned to investors via dividend increases.

The energy sector continues to be supported by higher commodity prices. Last week, U.S. natural gas and oil prices rose by 10% and 9%, respectively. High commodity prices are partially linked to low domestic as well as global inventories. The chart below highlights U.S. inventory levels for coal, natural gas, and oil as a percentage of normal for this time of year.



U.S. natural gas inventories are 18% below normal and last week's cold snap will likely cause inventories to drop further. Of course, global natural gas prices remain elevated. Specifically natural gas prices in Europe are 5x higher than in the U.S. due to reliance on Russia for natural gas supplies. U.S. coal inventories are low 32% below the 5-year average so the potential shift to coal instead of natural gas to generate electric power for economic reasons seems less likely throughout the summer. U.S. oil inventories are low 13% below average. Globally, oil inventories continue to fall as well. Last week, the International Energy Agency or IEA reported a decline in inventories for the 14^{th} consecutive month – a clear indication that the global oil market remains undersupplied. Lockdowns in China may temporarily reduce global oil demand but more oil supply is needed to reduce prices

While all of the discussion about low inventories leading to higher commodity prices sounds gloomy, help is on the way. Last week, Enterprise Products Partners, one of the largest operators of energy infrastructure assets, held an analyst day highlighting the potential of higher U.S. oil, natural gas, and natural gas liquids production in the coming years. While we have been critical of Enterprise for its capital allocation decisions, the macro energy perspectives provided by Enterprise are top notch.

Regarding U.S. LNG, Enterprise forecasts export capacity to more than double in the next five years increasing from 12 bcf/d of capacity today to 25 bcf/d by 2027. Currently, the U.S. provides almost one-quarter of the global LNG supply. Higher U.S. LNG exports allows the U.S. to grow its market share in the global LNG trade and replace natural gas currently supplied by Russia. Enterprise forecasts that 9 of the 13 bcf/d of additional LNG capacity is under construction today. In addition, Enterprise forecasts potential U.S. LNG export capacity could be 35 bcf/d by 2029 which is lower than the 55 bcf/d of U.S. LNG export capacity predicted by EQT CEO Toby Rice in his Unleashing U.S. LNG presentation. The key question is - is there enough natural gas resource in the U.S. to achieve these export targets? Both Enterprise and EQT have responded with a resounding yes. The bottleneck is the lack of energy infrastructure so additional infrastructure will be required in order for the U.S. to maintain its position as the largest and most reliable supplier of LNG to the rest of the world.

Related to crude oil, Enterprise's base case forecasts U.S. oil production to rise to 14.2 million barrels per day by 2027 from roughly 11.8 million barrels per day produced today. Higher U.S. oil production plus higher Canadian oil production and a small increase in OPEC production could be the solution to replacing Russia oil exports that are as much as 5 million barrels per day today. Enterprise expects the Permian Basin to be the primary source of long term growth. There appears to be adequate pipeline capacity to transport higher volumes of crude oil from the Permian Basin. However, additional natural gas liquids pipeline capacity could be needed around 2025 while a natural gas pipeline capacity to transport increased volumes natural gas from the Permian will likely be needed in 2023. Lastly, Enterprise highlighted its potential role as a transporter of carbon dioxide as its existing pipeline systems are located within 20 miles of over 300 million tons per year of carbon dioxide emissions along the Gulf Coast.

To wrap up, the producer price index numbers were released for March 2022 indicating an annual increase in PPI of 11%. Certain oil and refined product pipelines benefit from annual changes in the index through higher transportation. Pipeline transportation rates for regulated liquids oil and refined product pipelines can be increased by 8.7% in July of 2022 related to the PPI increase in 2021. With the PPI at current levels, the PPI escalator is on pace to result in a greater than 10% increase in transportation rates in July of 2023. While not game changing for pipelines, these levels of increases could garner more discussion as a potential positive earnings contributor as the year progresses.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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.

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