

Tortoise QuickTake Energy Podcast



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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise

Well last week started off with some entertainment from the G7 as Americans everywhere held their collective breath to see what the President would say and we weren't let down. My personal favorite part was when he said "I'm an environmentalist," after skipping climate meeting. He continued by saying he was the "greatest environmentalist who's ever been President" and "I think I know more about the environment than most people." It's good stuff, especially considering a few days later he proposed rolling back the standards on methane emissions. I'm not an expert on these regulations but apparently they do duplicate an existing rule under the EPA's volatile compounds standards but nonetheless it just looks bad. The companies operating these assets are actively taking steps to reduce methane emissions because it's just good business. Not to mention it undermines the industry's efforts to educate the public that gas isn't bad, in fact, combined with renewables it's the fastest most effective way to reduce emissions from power plants which are the largest single source of CO₂. You can sell all the electric cars you want, but if you use coal-fired generation to power them you are actually worse off. On that point, Tortoise is putting forth our view on the future energy transition and how to combat climate change in the near term so stay tuned.

Back to methane, the natural gas market got some much needed good news last week as Mexico's Federal Electric Commission announced they have ended a standoff on a contract with subsidiaries of both TC Energy and Sempra allowing several natural gas pipelines to move forward providing much needed supply to Mexico's power utilities. We estimate this will result in nearly 2 bcf/d of incremental gas flowing from the U.S. to Mexico in 2020. Just this summer the Yucatan Peninsula suffered power outages due to a gas shortage. I'm not sure if you've been to the Yucatan but its home to some beautiful vacation spots, so hopefully with these new supplies we'll be able to keep the lights on and the cervezas cold.

Meanwhile, Sabine Pass LNG Trains 3 and 4 were brought back online after completing scheduled maintenance underway since the beginning of August. Ramp up didn't skip a beat and quickly spiked back to flowing 3.5 bcf/d, near record levels. This led to overall LNG exports from the U.S. hitting an estimated record of 6.9 bcf/d and we expect activity to hold near these levels for the balance of the year.

In an otherwise quiet pre-holiday week there was some M&A news. First PDC Energy announced they would buy SRC Energy in a no premium deal that is effectively a merger between two Colorado oil and gas drillers with adjacent acreage. We like the deal as it increases free cash flow and allows PDC to increase their share buyback from \$200 to \$525 million. Add to this they will reduce debt, leading Moody's to place their ratings on review for upgrade. If you remember my last podcast we called for rationalization in the E&P space to put more acreage in less hands and the market agrees with both stocks up double digits following the news.

Next up, in the least surprising news all year, Blackstone Infrastructure made a \$19.50 all-cash bid for the public shares of Tallgrass Energy. The proposal follows Blackstone's acquisition of a controlling stake in the company earlier this year. Now, to clarify this is only a non-binding proposal which still needs to be evaluated by the independent board members. Based off history these won't be the final terms if a deal is consummated so we will keep you posted. This is the second take-private transaction this year following Buckeye's take-private announced in May. One of the key catalysts we spoke to in January was private capital appreciating what public investors don't, and if the valuation gap persists we will likely see more of these deals.

Last but not least, BP agreed to sell its entire Alaskan operations to privately-held Hilcorp Energy for \$5.6 billion. The assets include BP's entire upstream and midstream business in the state, including all of BP's oil and gas interests in Alaska, and their interest in the Trans-Alaska Pipeline System.

I'll leave it there for now. Thanks for listening.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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