Tortoise Energy Podcast

Tortoise

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Welcome to the Tortoise Special podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Hello, I'm Matt Sallee, portfolio manager with Tortoise. In the first full trading week of the year we witnessed a lot of activity ranging from geopolitics to capital markets to company news.

First oil prices were all over the board with support early in the week from U.S./ Iran tensions which were further stoked after Iran fired several rockets into airbases in Iraq which are home to U.S. troops. We had expected Iran to respond to the killing of General Soleimani but there are two items of note. One, the response came sooner than expected but more importantly it was widely expected the response would come through a proxy force rather than be overtly Iranian. That said it was a benign attack, perhaps intentionally so, to avoid further escalation. As this became clear to the market, and thankfully, that no one was hurt, oil took a 5% dive but we think this is unlikely to be the end of the story, so stay tuned.

In company news, it was a busy week. Starting with Sempra Energy and Saudi Aramco announcing an interim project participation agreement, or IPPA, for Port Arthur LNG. They had previously signed a heads of agreement basically a non-binding letter of intent, but this marks progress toward ultimately reaching a definitive agreement between the parties where Aramco will both own an equity interest in and purchase gas from the Port Arthur project. Had you told me 10 years ago that Sempra would be selling gas to Saudi Arabia I would have said, yeah, and Norway's national oil company who produces half the country's revenue will change its name and announce plans to eliminate its greenhouse gas emissions by 2050.

Well I struck out on both, as Equinor, the Norwegian company formally known as Statoil, is continuing to shift from big oil to big energy and has announced a pledge to reduce its emissions to "nearly" zero by 2050. As part of the plan, the company will invest $5.7 billion by 2030 to initially cut 40% of its C02. It expects to achieve a 70% reduction by 2040 on its way to "nearly" zero by 2050. Initial steps will entail electrifying its offshore platforms, other fields and equipment with wind, solar and hydro generation. Additionally they will invest in energy efficiency and digitization projects. Longer term plans will require further electrification, shifting its business mix and investing in technology. The company goes on to mention some of the technologies it will invest in are carbon capture and emission free hydrogen based on natural gas. This is fascinating and if it can be done economically, it shows a lot of promise. For anyone interested, I've included a link (in the transcript) that explains the project they are working on.

In midstream news, Occidental and Western Gas announced execution of several agreements which significantly improve the governance of Western Gas and also allow Oxy to deconsolidate WES from its balance sheet. Most importantly the new partnership agreement allows limited partners to remove the general partner with a simple majority of the minority vote. The company is also in the process of improving the makeup of its board. Beyond governance improvements Western also announced 2020 guidance above the prior range and lowered the capex forecast as well.

Next up, Northeast producer Range Resources announced its 2020 capital plan which will be down 30% year-over-year but allows the company to maintain its 2019 exit production levels, a plan we view as quite prudent. Additionally, while minuscule, the company will suspend its $.02 cent per quarter dividend and instead focused on debt reduction and stock repurchases; another reasonable adjustment.

Range was also in capital markets last week, along with many other energy companies. Range issued $550 million of six-year notes with a 9.25% coupon which will be used to tender for a similar amount of existing notes across three different issues maturing in 2021 and 2022. While the coupon is clearly not attractive relative to existing paper, I think it is powerful to demonstrate the ability to access capital markets, especially for a company with a sub $5 stock price.

Beyond Range, a host of upstream and services companies issued debt last week including Laredo, Nabors, WPX Energy and Transocean. I view this as pretty remarkable because with the exception of WPX, these companies have the balance

sheets of a college kid without a job. If you add all their ratings together you barely get to investment grade. On the other side of the ledger several midstream companies issued debt totaling $13 billion dollars headlined by Enterprise and Energy Transfer. In stark contrast to Range, Enterprise issued $3 billion of paper across three tranches with 10, 30 and 40-year maturities. The 10-year paper carries a coupon of only 2.8% and the 40 year paper yields 3.95%, remarkable.

I'd like to finish by sending prayers out for the passengers of Ukraine Airlines flight PS752.

I'll leave it there for now, enjoy your week.

Hydrogen to Gas Project: https://www.equinor.com/en/what-we-do/new-energy-solutions.html#hydrogen

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