Tortoise Energy Podcast

August 31, 2020

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

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

Our thoughts and prayers go out to all those impacted by Hurricane Laura last week along the Gulf Coast. While it is the season for storms, it is no less concerning and scary to see them turn into category 4 hurricanes, such as Laura. On a much lighter note, we are inside of 2 weeks until the Kansas City Chiefs season opener, where they begin defense of their Super Bowl crown. With a ton of players and coaches back from last year, it's safe to say hopes and expectations are high in KC!

Moving to the financial markets, let's start things off with performance for the week that was:

- On the commodity front, crude oil was up nicely, increasing 1.9%, while
- Natural gas was the opposite, with futures prices falling a touch over 2%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was positive, higher by 1.1%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ kept pace with crude, adding a bit more to finish up 2.9%
- Utilities, per the Dow Jones Utility Index, were modestly negative, down 97 bps
- And finally MLPs were a bit rough as the Tortoise MLP Index® declined by 1.1%

Given we are in the dog days of summer, right before a major holiday, it was pretty quiet on the company front. However, it remained active on the macro side with several notable items.

To kick it off, Fed Chairman Jerome Powell surprised few in his Jackson Hole speech when he essentially pushed the inflation bogey of the Fed to a 2% average over time. This of course paves the way for the Fed to overshoot a bit temporarily. Additionally, it would seem we will be at low rates for some time based on commentary and outlook. Definitely a positive for risk assets.

The Republicans had their turn in the virtual spotlight, hosting the RNC national convention, one week after the Democratic convention. Hard to say much came of it, but a few polls would seem to suggest the President received a bit of a post-convention bounce.

The aforementioned Hurricane Laura shut down a pretty good chunk of production and refining operations in the Gulf as it made landfall early Thursday morning. As Jim noted last week, Louisiana is home to several U.S. refiners, so it came as no surprise that as the storm was bearing down on Port Arthur and Lake Charles, several refineries shut down in advance. Based on latest estimates, the damage appears to be pretty minor and many expect over half of the shut-down refineries to be back operating within a week. In terms of production, about 1.6 million barrels per day of crude oil and 1.7 bcf/d of natural gas production were also shut down. Similar to refining capacity, expect most of that to come back online within the next week or soon thereafter.

The Energy Information Administration released some year-to-date numbers that were very informative. The Electric Power Monthly was published on Tuesday, with data through June. As many of you are aware, when we discussed the Teal Energy Deal last July and into the fall, we touted the continued prospects of natural gas and renewables taking share from coal. 2020 has not been a great year for very many things and coal is certainly not feeling the love either. For reference, in 2010, coal represented 45% of the United States' net generation sources. Natural gas was 24%, nukes were 20% and renewables, mostly hydro, were 10%.

In 2019, those numbers had changed dramatically, with coal down to 23%, natural gas all the way up to 38%, nuclear steady at 20% and renewables jumping to 17%. What's interesting is that through June of 2020, coal is down to just 17%, while natural gas has moved up to 40%. Nukes still remain steady at around 20%, but impressively, renewables have now, for the first time since all the way back to 1885, surpassed coal in generation at 21%. This has happened before in shorter time horizons, such as one month, but 6 months is much more impressive. Note, coal is likely to take some share back if and when natural gas prices increase, yet this is still quite a dramatic move in just the last 10 years, spurred by declining costs mostly, but also by a desire to reduce CO2 emissions.

Finally, sticking with emissions, Williams Companies press released that it intends to reduce company-wide greenhouse gas emissions by 56% from 2005 levels by 2030. This would put the company on a positive trajectory to be net zero carbon emissions by 2050. Williams will continue to target reducing methane emissions as a major key in this plan. Additionally, similar to what Matt mentioned a few weeks ago, they will also use renewable natural gas and will be spending upwards of $400M on solar initiatives across 9 states.

Longer-term, Williams believes future break-through in technology, such as carbon capture, synthetic gas and hydrogen will all be key to achieving their goals.

Can I just say, this is fantastic stuff. For one, Williams is taking seriously emissions and doing something about it. And to be clear, they are not the only midstream company doing so. Two, they are transforming themselves into a dynamic energy company for the future, not standing still and just watching the world change around them. We have been preaching that midstream and energy more broadly are evolving and we plan to evolve with them.

With all that said, I would like to make a shameless plug that we will be launching an educational series on the evolution of energy over the coming weeks. We hope you will join us for it as it will be full of some great content. More to come on that front, so stay tuned.

Have a great week, stay safe, and we look forward to speaking with you again soon.

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.

The S&P 500® Index is a market-value weighted index of equity securities.

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠
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MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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