Tortoise Energy Podcast

September 14, 2020

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

Hello. I am Tortoise Managing Director and Senior Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Markets were lower last week with the S&P 500 falling 2.5%, midstream down 3%, and broad energy sliding 6.5%. Energy wasn't helped with oil declining a nearly equal amount. Comments about the U.S. scaling back ties with China, Saudi Arabia selling oil for cheaper prices and lower demand growth estimates all weighed in.

The Barclays Energy CEO conference kicked off the fall conference season. In midstream, capital allocation remained in focus, with buybacks evaluated as target leverage levels are reached. For example, Plains All American noted growth capex continues to fall, enhancing free cash flow and consequently putting the company in a position to start buying back shares. Cheniere Energy maintains a priority for debt pay down to reach investment grade rating, it also indicated that buybacks might be more attractive than initiating a dividend.

Conference participants indicated that refined product demand was mixed. Magellan noted gasoline demand is slightly worse than the 6% year over year decline forecast for the second half of the year. Rural markets have largely returned to pre-COVID levels, yet metropolitan areas remain below as employees continue to work from home. Diesel demand however is in-line with expectations, recently just 2% below pre-COVID levels, and jet fuel demand has been better than the down 40% expected.

On natural gas, producers remain capital disciplined even with prices up materially. The 2021 forward curve is near $3 per mmbtu. That said, midstream companies were optimistic that dry gas basins like the Marcelles in both north-central and southwest Pennsylvania, Oklahoma, and the Haynesville would see production growth with prices near these levels.

On crude oil production, we've seen a strong bounce-back in volumes during the summer from curtailments coming back on-line. Expectations are now that volumes will remain flat for the remainder of the year as new well completions are offset by legacy well declines and lower drilling activity. It remains widely recognized that the Permian remains best positioned due to low drilling and completion costs and transportation advantages.

Finally, the increased regulatory environment for new pipelines was discussed. Companies highlighted the tougher regulatory environment increases barriers to entry and enhances the value of existing assets. In addition, the need for new, large scale pipelines is diminished with lower volume growth following COVID.

Staying with the regulatory environment, the Colorado Oil and Gas Conservation Commission voiced support for a rule requiring new wells drilled in Colorado to be 2,000 feet setback from buildings. This is an increase from current standards of 500 feet for most areas and 1,000 feet from high occupancy buildings. The Commission will vote on the new regulation after completing hearings on the rule, expected sometime in late October. It is too early to tell the ultimate impact given there will likely be exemptions and further litigation.

In the news, Enterprise Products announced it is canceling its Midland-to-ECHO 4 crude oil pipeline, resulting in a decline of $800 million in capex from 2020-22. Given the reduction in crude oil production in the Permian and the fact that the pipeline would add 450,000 bpd of takeaway capacity, we think the cancellation makes sense. The reduction in capex better positions Enterprise for free cash flow generation, which it could allocate to stock buybacks given their leverage is already at target levels. Stay tuned.

BP and Equinor entered in a strategic partnership to develop offshore wind energy in the U.S. Specifically, BP agreed to pay $1.1 billion for interests in existing U.S. offshore wind projects, and the two companies will jointly develop four assets located offshore in New York and Massachusetts. This clearly is a step for BP toward reaching its goal of 50 GW of renewable power by 2030.

Staying with BP, BP will hold its capital markets events this week. The company will offer insight into its new strategy and update its annual energy outlook. We expect the outlook to forecast growing electricity demand, powered by growing renewable and natural gas generation where LNG will play a big role, along with a steady outlook for oil demand as electric vehicle headwinds are offset by growing petrochemical demand for oil. Look forward to hearing further details next week.

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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