Tortoise

Strong Energy Production Growth & Constructive Commodity Prices Support the U.S. as a Major Global Supplier of Energy

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The United States is breaking records in its level of energy production and expectations are for even higher U.S. production for crude oil, natural gas and natural gas liquids through 2022. Nearly all of this growth is coming from unconventional basins, or shales, as improvements in horizontal drilling and hydraulic fracturing drive increased recoveries and efficiencies that enable profitable drilling. On the demand side, natural gas needs are growing from more coal to natural gas switching for power generation, increased industrial activity and higher exports from the U.S.

Years in the making, liquefied natural gas (LNG) export facilities recently came on-line with several more expected to complete construction over the next two years. In total, the U.S. exported LNG to 26 countries since the start-up of the first facility in 2016. And for crude oil exports, the U.S. just set a record during a week in the middle of May when exports topped 2.5 million barrels per day. After decades of being a net energy importer, the US is now a major supplier of energy to the rest of the world.

A Vibrant Pipeline Network is Key to Transport Energy

Production growth is not without its infrastructure challenges. Current natural gas production exceeds the amount of available pipeline capacity in the Marcellus Shale in the northeastern U.S. This is forcing some natural gas wells to not be completed, others to be choked back and some to be shut-in. The inadequate pipeline capacity is the reason for the wide spread, sometimes over $1.00 per mmbtu (versus a benchmark price around $3.00), between the price of natural gas in the northeast versus the benchmark price at Henry Hub. Producers are anxious for new pipelines to come online not only to enable more production, but to also narrow the pricing disparity to earn more revenue on their sold natural gas. Crude oil is similarly challenged in the Permian Basin in west Texas where some barrels are now being moved by rail and truck – more expensive and less efficient options than pipeline transport offers.

While the need for additional pipelines is acute, energy infrastructure companies are benefiting today from industry trends. We recently exited the first quarter earnings season where company results and expectations for the remainder of the year confirmed the healthy sector fundamentals. In each of the three drill-bit commodities, transport volumes were materially higher year-over-year with companies guiding to further increases. And producers showed no sign of slowing down based on first quarter commentary and recent actions. For example, in the Permian, there were 770 horizontal wells permitted in April – a record high.

U.S. energy production growth is strong, commodity prices are constructive to facilitate new drilling and the U.S. holds an advantageous position globally. Energy infrastructure companies are a critical component for the energy value chain in maintaining a vibrant pipeline network to support the anticipated growth. And because energy infrastructure companies earn a fee to move products, their cash flows are stable, generating attractive yields that are less sensitive to commodity prices. We expect these companies will continue to benefit from greater transport, storage and export opportunities.

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