

Tortoise QuickTake

Energy Podcast



March 26, 2019

Welcome to the Tortoise QuickTake 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 Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast.

March Madness has begun, brackets are busted. The Anteaters and the Tigers squashed the hopes and dreams of the tournament teams for many of us here at Tortoise.

Meanwhile, the emergence of an inverted yield curve spooked investors last week resulting in an almost 1% decline in the S&P 500.

For MLPs, the Federal Reserve announcement of no more rate hikes in 2019 helped push MLP stocks higher as the Tortoise MLP Index rose by almost 2%.

U.S. oil prices are hovering around \$60 per barrel. OPEC+ agreed to keep supply cuts in place through at least June. In addition, U.S. oil inventories fell sharply partially due to higher U.S. oil exports. Last week, the EIA reported U.S. oil exports averaged 3.4 million barrels per day. This is the second largest weekly level of U.S. oil exports ever recorded.

This year the NCAA tournament is lacking a Cinderella story although Tacko and the Knights were so close to wrecking office pools across the country. We believe that natural gas is the Cinderella story in the energy sector. When I started working at Tortoise 15 years ago, Cheniere Energy was preparing to build infrastructure to import natural gas into the U.S. Of course, today Cheniere is a leading exporter of natural gas to the rest of the world and the U.S. is set to become the second or third largest supplier of global LNG in the next decade. More natural gas and less coal used to generate electricity has helped the U.S. reduce carbon dioxide emissions since the mid-2000s. According to the World Bank, 70% of China's electricity production is fueled by coal. We fully expect China to follow the lead of the U.S. with natural gas displacing coal in the future that should help to reduce carbon emissions in China. As a result, we believe that U.S. LNG exports to China will be one of the key components to a U.S. and China trade deal.

In company specific news from last week, the Canada Pension Plan Investment Board agreed to invest \$1.34 billion for a 35 percent ownership interest in a joint venture with Williams. The investment will assist Williams' growth of its Marcellus and Utica midstream asset footprint. Analysts estimate the multiple for this transaction to be between 14 – 16 times cash flow. This transaction is another example of a large, sophisticated, institutional investor agreeing to pay a higher cash flow multiple than the current valuation of many publicly traded midstream companies.

Enterprise Products Partners announced plans for an electronic auction offering U.S. crude oil for export from the Houston Ship Channel using CME's technology. Currently, Enterprise is the largest exporter of crude oil in the U.S., accounting for nearly 40 percent of the volumes.

Related to the Houston Ship Channel, a fire at a petrochemical storage facility along the Gulf Coast has caused the temporary closure of a portion of the Houston Ship Channel. Almost all of U.S. oil exports depart from the Houston Ship Channel so U.S. oil inventories could temporarily build depending on the duration of the closure.

From a regulatory perspective, the Federal Energy Regulatory Commission or FERC issued a Notice of Inquiry (NOI) addressing whether to modify its policies for determining the return on equity (ROE) for Interstate Oil and Gas pipelines. The proposed calculation of base ROE considers four equally-weighted methodologies including DCF, CAPM, expected earnings, and risk premium models. Initial comments are due 90 days after publication. If there are any changes, they likely won't be implemented until next year. Also, recall that most pipelines operate under negotiated rates. In the event the pipeline is subject to a rate case, most rate cases are settled with no ROE specified so we don't expect any changes to have a material impact on the companies that we are investing in.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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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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^{es}

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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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