

Tortoise QuickTake Energy Podcast



March 18, 2019

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.

Energy had a good week on the back of an 8.5 million barrel crude and gasoline inventory decline. Further, Saudi Arabia continues their conservative export posture. Specifically, they announced April allocations that were 635 mbpd below customer nominations. Looking at the numbers, midstream was up with MLPs adding 1% and C-Corps gaining 2%. Also E&P was up 5%, boosted by strength in commodity prices.

On the fundamental front, the IEA released their 5-year outlook and the key highlights include the U.S. leading global production growth, transforming global markets. In fact, the IEA projects by 2024 the U.S. will pass up Russia in volume of oil exported and match or even surpass the exports of Saudi Arabia. On the demand side, growth is expected to average 1.2 mbpd per year for the next 5 years - continuing above trend line demand growth and confirming peak oil demand is not on the horizon. Those were their words, not mine.

And finally OPEC held their joint ministerial meeting and confirmed that compliance with current OPEC targets increased to 90% in February up from 83% a month ago. They also canceled the planned April meeting confirming they will maintain the current output reduction targets through June at which point it will make a decision on extending the curtailments until year end.

On the regulatory front, we are closely watching the evolving oil and gas legislation in Colorado that is related to drilling setbacks determining how far away activity needs to be on existing structures. Last week the Senate passed the proposed legislation and it is now slated to be read once in the House and then move to the House Energy and Environment Committee. Our legislative consultant advises us they expect this to be passed in March. As we understand it, the legislation would increase a local community's control over the permitting process and setback requirements. Although any changes come with uncertainty, our expectation is increasing local control in areas where oil and gas operations are active should be a net positive. As an example, in the failed prop 112 last November Weld County overwhelming voted against. This is by far the leading county in the state for oil production.

Moving to company news:

- Antero Midstream closed their LP-GP combination with a 94% approval checking off one of the last midstream names needing to eliminate incentive distribution rights.
- Next TPG Capital agreed to buy a majority stake in Goodnight Midstream for \$930 million, the yet another deal where private equity is investing into midstream energy. Goodnight is a Permian water pipeline operator. With additional growth equity and the proceeds from a debt financing, the company will have access to more than \$300 million for expansion. The deal is expected to close in the second quarter.

A couple of interesting macro notes on the need for water infrastructure

- More than 16 million barrels of water a day is produced in the Permian Basin alone.
 - According to IHS the industry spent \$34 billion on water management in 2018, with \$12 billion of that spent in the Permian
 - About 20 percent of wastewater produced by the top 10 producers in the Permian is now outsourced to companies like Goodnight.
- Finally, on Thursday Equitrans Midstream announced the acquisition of gathering assets in the Northeast for just over \$1 billion including assumption of \$170 million in debt. The assets are expected to generate next twelve month EBITDA of \$100 million for a 10x multiple. We estimate the deal is slightly accretive and it will add customer diversity away from EQT which we view as positive. It's also worth noting management is guiding to 20% annual EBITDA growth for several years which our estimates

haircut. Supporting the asset is a 17-year weighted contract life with minimum volumes commitments growing from .8 to 1.3 BCF/D by 2021. The deal will be financed with a convertible preferred security issued to institutional investors.

Well, I'll leave it there for this 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.

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 IndexSM

The Tortoise North American Oil & Gas Producers IndexSM is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index[®], Tortoise North American Pipeline IndexSM and Tortoise North American Oil and Gas Producers IndexSM (each an "Index"). S&P[®] is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones[®] is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*