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**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 Portfolio Manager Jim Cunnane with this week's Tortoise QuickTake podcast.

With the 4th of July behind us we are heading into what is traditionally the hottest time of the year. For much of the country this July is living up to the billing. It's hot! Meteorologists are projecting that the excessive heat will persist over the short term for most of us. While this may be a challenge for outdoor activities it does increase energy usage, as consumers fire up their air conditioning. While we are on the weather topic, this week NOAA (National Oceanic and Atmospheric Administration) issued a watch for a La Niña this year, which portends an active Atlantic hurricane season. Of course, an active hurricane season could temporarily disrupt Gulf Coast production and possible some midstream assets.

For midstream investors the hot weather would normally provide a good backdrop for positive returns. But instead of the heat it was a flood of regulatory issues that drew everyone's attention this week. Let's start with the big one, a ruling by the U.S. District Court for the District of Columbia that ordered the Dakota Access Pipeline (DAPL) to shut down by August 5. Although the 1,000+ mile, 30 inch diameter DAPL pipeline has been operating for 3 years the court ruled that the original Corps of Engineers permit should not have been granted due to an inadequate environmental impact review. The big stories here are first that this appears to be an unprecedented judicial order to shut down a normally operating pipeline and second that this pipeline is a major player in the takeaway capacity in the Bakken.

Let's talk about the impacts to MLPs and midstream companies. Energy Transfer and Phillips 66 Partners are major owners of the pipeline and would be directly damaged by the potential shutdown. The EBITDA impact of a shutdown could be low-to-mid single digits for Energy Transfer and potentially higher for Phillips. The market impact was significant as investors immediately priced in meaningful odds that a shutdown will occur, and the potential impact that shutdown would have on earnings and the ability to maintain current distributions. The day of the ruling Energy Transfer declined 12% and Phillips 66 Partners declined 18%. Both MLPs are among the largest in the Alerian MLP Index and Tortoise is a meaningful owner in both as well. ONEOK, a midstream corporation, was also hit 12% over expectations that a significant amount of North Dakota based oil production might be shut in due the lack of cost-efficient takeaway capacity. DAPL is the largest pipeline in the Bakken and a shutdown would force volumes to other pipelines with capacity or to more expensive rail options. Either way producer takeaway will be more expensive and shut ins would be likely.

What do we expect next? Energy Transfer's management team, in particular, has reacted aggressively to the ruling, arguing that the decision is not supported by the law or the facts and suggesting that the judge exceeded his authority in ordering the pipeline shut-down. We expect them to pursue all options to keep the oil flowing. They can appeal all the way to the Supreme Court if needed. Alternatives to the appeal process are to recomplete the environmental review, a year long process, and hope that the U.S. political landscape is such that a new permit is granted.

There was also good regulatory news last week. The Supreme Court on Monday agreed to reinstate streamlined permitting for pipelines across the country, except for Keystone XL. The justices partially granted the Trump administration's request to freeze a lower court's order that barred the use of a fast-track water permitting program for pipelines while an appeal process plays out in the Ninth Circuit. But the court declined to revive the key permit for the embattled Keystone XL project. For MLPs and midstream companies this ruling is an important risk reducer for new projects with the clear exception of TC Energy, who will face additional delays with Keystone. A winner is the Mountain Valley Pipeline, EQM Midstream's 300+ mile natural gas pipeline is nearing completion after a series of delays.

Last week served as an additional reminder that large, new build midstream growth projects are becoming increasingly more expensive and time consuming to complete. Of course, the flip side to the difficulty completing and operating these new projects is that existing infrastructure becomes more valuable. There is a silver lining here.

Despite the challenges with growth projects, MLPs and midstream companies continue to operate effectively in a challenging environment. Distribution announcements are a key indicator of continued management confidence in their businesses and last week the announcements started for this quarter. Enterprise Products and Plains All American were two notables out last week and both were in-line with expectations.

Before I wrap up let's talk about performance. The Alerian Index fell approximately 5% during the week, largely driven by the regulatory items I just discussed. Although the Alerian has recovered meaningfully from the March lows, it has fallen significantly over the past month. As my colleague Rob Thummel pointed out on last week's podcast, the energy infrastructure sector offers a yield of approximately 10%, very compelling in comparison to other yield-based options investors have. We expect a turnaround in several macro factors to help midstream in the second half of the year. We are closely watching key drivers for the second half of 2020 including continued improvements in energy demand, rebalancing of global oil supply, and continued capital discipline of U.S. energy companies.

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](mailto:info@tortoiseadvisors.com).**

**Alerian MLP Index** the leading gauge of energy infrastructure master limited partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

It is not possible to invest in an Index.

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