

Tortoise QuickTake Podcast

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

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Well I wish I had better news to report, but the first week post OPEC's decision to extend production cuts wasn't so pretty. Despite a 6.4 million barrel crude inventory drop in the U.S., oil prices still fell 4% last week. Not surprisingly, energy equities dropped in sympathy with MLPs down 2.5% and the S&P Energy Select Sector Index down 2.2%. Now, with the negative price action, it's easy to forget about the underlying fundamental data, but that data is quite bullish. Last week's inventory drop brings the total May decline to 18 million bbls. This is the largest decline for the month of May since the EIA started reporting this data. For you dedicated podcast listeners out there, you may remember my last update covering April inventory data. As a refresher, April was the first time in 18 years crude storage levels fell that particular month. Bottom line...yes, energy sentiment remains weak; but be patient, the physical oil situation is improving.

Moving on, last week was the annual MLPA investor conference. Attendance was down, but I think that is not a function of a lack of interest, but rather the proliferation of sell-side hosted MLP conference all competing for attention. That said, we did have members of the portfolio team there putting management teams through the paces and getting the latest updates on how things are going. Some key takeaways to point out are that management seems to be more optimistic than investors, pointing to the outlook for significant volume growth driving up utilization of existing assets and creating demand for new infrastructure. Along with this, companies have taken proactive steps during the downturn to right-size balance sheets and lower cost of capital, positioning them to take advantage of the improving environment. It is important to note that several new pipelines are soliciting shipper interest to move hydrocarbons from the Permian Basin. At this point, our expectation is that not all of these projects will move forward given it is more capacity than we believe is needed, and in that vein, a lot of our discussions centered on competitive positioning of the various projects.

Shifting to midstream news for the week:

- MPLX announced they hired former Sunoco Logistics chief, Mike Hennigan. We have been invested with Mike at SXL for years leading up to their merger with ETP, and we believe he will be a great leader for the MPLX team.
- Also, Dakota Access began commercial startup with initial contracts of 520 mbpd, which provides a significant boost to Bakken takeaway capacity and local pricing. For reference, the current Bakken differential is about 60 cents, which is quite a difference from the 5 - 10 dollar range witnessed just a couple of years ago.
- Next, Noble Midstream increased their second quarter volume guidance, driven by results from enhanced completions by parent, Noble Energy.
- On the negative side, Kinder Morgan's TMX pipeline expansion is facing a new hurdle after the NDP and Green Party reached a deal to form new government in British Columbia. Both of these parties have publicly stated they oppose this project. While the federal government just last week reiterated support for the pipeline, it's reasonable to expect the in-service date could be pushed back due to local opposition.
- Last but not least, DCP Midstream announced a further expansion of its Sand Hills pipeline, bringing additional NGL takeaway capacity to the Permian basin – the second NGL pipeline from the area in as many weeks.

So in conclusion, the fundamental supply/demand balance for oil is improving and volumes are expected to continue ramping in the U.S. to meet growing global demand. And, as a reminder, we focus on what we judge to be high quality companies positioned to win coming out of the cycle. So while the energy tape has not been much fun to watch, keep the faith; we are confident things will get better.

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@tortoiseinvest.com.

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