Tortoise QuickTake Podcast with Rob Thummel

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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.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of the week.

Energy stocks rallied last week with the broad energy sector, as measured by the Energy Select Sector Index, ending the week 2.6% higher. On the other hand, MLPs as measured by the Tortoise MLP Index fell by 1% during the first week of November.

In Kansas City everything is viewed through the lens of the world series champs Kansas City Royals right now. This tends to happen when you have to wait 30 years in between championships. Let's call this rally in energy stocks the "Kansas City Royal Rally" as since the beginning of the major league baseball playoffs, roughly the beginning of October, energy stocks have rallied. Returns for energy stocks for the month of October were a positive 11%. So far this year, the energy sector has produced positive monthly returns in 3 out of the 10 months. While a 3 out of 10 batting average will likely earn Royals left-fielder and free agent Alex Gordon a $100 million contract, 3 positive return months and 7 negative returns months highlight the negative sentiment associated with the energy sector in 2015. Hopefully, the "Royals Rally" extends in November and the negative sentiment begins to subside.

Switching to earnings. A lot happened this past week. Here are some highlights.

Starting with upstream, two words best describe the themes of the third quarter earnings season. The first word is discipline. In response to low commodity prices, oil and gas producers have been lowering capital budgets and the expectation is that 2016 will be the second consecutive year where capital expenditures are lower than the previous year. The second word is efficiency. What does that mean? In essence, you produce equivalent or higher volumes of oil and gas using fewer drilling rigs. How do you do that? By increasing the volume of oil and gas that you extract from each well you drill and by drilling wells faster. Also, costs to drill wells continues to fall. A key metric to compare shale producers is drilling cost per lateral foot. Achieving $1,000 per lateral foot is quite an accomplishment. This means that a 5,000 foot lateral well would cost $5 million while a 10,000 foot lateral well costs $10 million to drill. This quarter several Marcellus producers drilled wells for less than $1,000 per lateral foot and Permian producers reduced drilling costs moving closer to this goal. A second notable observation last week was the continued dominance of the Marcellus Shale. The big three Marcellus producers (Cabot, EQT, and Range) reported third quarter 2015 natural gas production that was 20% higher than third quarter 2014 production. In contrast, the largest producer in the Fayetteville Shale, another significant U.S. natural gas field, stated that natural gas production volumes declined by 10%. A similar story is unfolding in another large natural gas basin - the Barnett Shale. One of the top producers in the Barnett, Devon Energy reported that Barnett Shale production in the third quarter of 2015 was 12% lower than the same period last year. With Marcellus natural gas volumes growing and other basins like the Fayetteville and Barnett falling, the Marcellus is quickly becoming a bigger piece of total U.S. natural gas production. A similar story is developing in shale oil. Last week Pioneer Natural Resources, the largest acreage holder in the Midland Basin, which is a subset of the Permian Basin, announced third quarter production volumes that were 13% higher than the second quarter of 2015 while the largest producers in the Bakken, specifically Continental Resources and Whiting Petroleum, announced an average production decline of 4% over the same period.

Looking at the midstream sector, three MLPs with significant crude oil infrastructure in the Permian Basin reported last week. First up was Plains All American. A famous quote from Yogi Berra epitomizes the third quarter for Plains. Yogi's quote "It's deja vu all over again." In August, the Plains stock price fell 10% on the day of its second quarter earnings call.

Last week the PAA stock price fell 11% on the day of its third quarter earnings call. While the third quarter earnings were better than expected, management reduced fourth quarter guidance and delayed 2016 guidance. The second MLP to report was Magellan Midstream. Magellan reiterated 15% distribution growth in 2015 and 10% in 2016. Magellan's strong performance was aided by its refined products segment which benefitted from increased demand for gasoline and jet fuel. Magellan's stock price rose by 7% post-earnings announcement. Lastly, Sunoco Logisitics 3Q earnings were in-line with expectations with its crude oil pipeline segment positively impacted by the start-up of a new pipeline that transports oil from the Permian Basin to the Gulf Coast.

The winner of the best drama last week is the Keystone XL Pipeline where early in the week Transcanada, the operator of the pipeline, requested a pause in the State department's review of the pipeline. The State department swiftly rejected Transcanada's request. On Friday, as expected, President Obama rejected the Keystone pipeline. What happens next? Lawsuits and political positioning of course. In the meantime, there are other pipelines tranporting Canadian oil sands volumes to the U.S. There appears to be sufficient pipeline infrastructure to transport growing Canadian oil sands volumes to the U.S. through at least 2018.

In the downstream sector, one yieldco reported earnings last week. It was NRG Yield. Yieldcos in general have been hotter than Royal's first basemen Eric Hosmer in October and November up 30% on average since the end of September. Specifically, NRG Yield rallied 10% last week after updating guidance which assumes 15% dividend growth by the end of 2016. The company reiterated its ability to grow dividends by 15% per year through 2018 without the need for additional drop-downs or new third-party capital.

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