Tortoise QuickTake EnergyPodcast

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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.

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Love for stocks was in the air last week as prices improved across the board, including energy. Led by the 4.2% gain in WTI crude oil, broader energy gained 2.2% and MLPs 1.3%. Helping crude oil was a weekly inventory build short of the five-year average. Also notable, the spread between Brent and WTI narrowed following continued draws at Cushing, Oklahoma due mid-continent refinery maintenance and the Diamond pipeline directing some volumes away from Cushing. And while spot prices gained, the forward curve is showing even steeper backwardation as oil rig adds are moving year-end production estimates higher.

During the week, the EIA, IEA and OPEC all increased estimates for 2018 US oil production growth, with the IEA noting that US growth alone may match higher global demand. OPEC's view on global oil supply and demand balance was constructive, indicating most participants are unable to increase production this year and making tentative plans for members to extend cooperation after the existing curtailment agreement expires at year-end.

Moving to company news - producers are continuing their commitment to focus on returns, as Laredo Petroleum started a share repurchase program, Noble Energy and EnCana announced share repurchases, Diamondback Energy initiated a dividend, and Occidental Petroleum and Marathon Oil discussed management incentives tied to corporate returns.

The largest natural gas producer in the US, EQT Corporation, accelerated its timeline to address its sum-of-the-parts discount, to the end of February. We think the potential here is significant given there are four publicly traded entities requiring consideration in any simplification. Tickers, EQT, EQM, EQGP, and RMP for those of you keeping score. Stay tuned here.

Midstream earnings takeaways this week suggest capex is moving higher driven by increased takeaway capacity. The largest project, from TransCanada, is a $2.4 billion, 1 Bcf/d expansion of natural gas takeaway capacity from Western Canada beginning in 2020, with an average contract life of 29 years.

We also saw some pressure on pipelines last week due to implications from corporate tax reform. With some pipelines, there are specific clauses in rate settlements allowing for changes in tariffs with changes in income taxes. We think these specific clauses are by far the exception, and we believe the impact of lower corporate tax rates will play out over several years. Further, many items will be considered, including: market rates and negotiated rates, along with whether a pipeline is over or under earning its allowable rate. Call us if you have a question on this less than straightforward topic.

In oilfield services, some concern arose from the two largest service providers related to the first quarter. Halliburton noted it is experiencing sand supply issues following rail problems from poor January weather in Texas. And Schlumberger indicated it is seeing some temporary headwinds in the hydraulic fracturing market, again due to inclement weather. With the accelerating demand for onshore services, there are bound to be some hiccups along the way.

This week fourth quarter earnings continue and the API and EIA inventory reports are pushed back a day to account for the holiday.

And given President's Day, let's reflect on Abraham Lincoln's comment that, "the wind is an untamed, and unharnessed force; and quite possibly, one of the greatest discoveries hereafter to be made, will be the taming, and harnessing of it." That line is from a speech about discoveries and inventions Lincoln gave in 1860. Certainly, he recognized the great potential of wind to expand beyond sailing vessels and grinding grain. And this year for the first time, the EIA expects wind to surpass hydro as the largest renewable electricity generation source. It just took 158 years since Lincoln's quip to do so – a good reminder that changes in energy generation are measured in just that, generations.

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.

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