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.

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

The most anticipated energy event last week was Thursday's OPEC meeting. In line with expectations, OPEC is continuing its policy of undeterred production after members rejected a proposal to adopt an output ceiling. The "hands-off" policy continues. For OPEC there will apparently be no more "float like a butterfly, sting like a bee," as that role will be increasingly the one played by U.S. shale. The one area of unification at OPEC is optimism that crude oil markets are improving, that oil markets are heading toward a supply and demand rebalancing and that investment is needed to come back so production can satisfy market demand over the medium to long-term.

Speaking of rebalancing, last week the DOE reported a crude stockpile draw of 1.4 million barrels versus consensus of a 2.6 million barrel decline. Gasoline and distillate inventories fell more than expected as U.S. vehicle miles traveled continues to set new records. Lower 48 production fell 40,000 bpd week over week, now down nearly 500,000 bpd in the last three months. There was one piece of bearish data, the rig count was higher by four rigs in the U.S. last week, led by increases in Permian.

All in all, for prices, crude oil was off 1.4% last week.

Natural gas prices rose to their highest level since January, up 10.5% to $2.40/mmbtu. Inventory showed an increase smaller than expected at 82 bcf. Though inventories remain well above the five year average, the expectation is that natural gas demand will be elevated this summer following the National Oceanic and Atmospheric Administration's prediction that "most of the continental US is facing elevated chances of well above average summer temperatures.

For energy indices last week, MLPs climbed 3.7%, with broad energy off just less than 1% and producers flat.

Last week, we attended the annual MLPA conference in Orlando, visiting with management teams in one-on-one meetings, other investors and MLP bankers. While attendance was lower by 20-25%, investor sentiment is clearly improved from earlier in the year as the chatter in the hallways was one of cautious optimism. Management discussions centered on improving distribution coverage, reducing leverage and in some cases seeking 'simplification' in corporate structure. Internal project activity focused on 'demand-pull' natural gas pipelines, particularly those for growing LNG and Mexican export and toward the power sector.

Speaking of simplification, there was one last week SemGroup announced the acquisition of its MLP, Rose Rock Midstream. The transaction simplifies the corporate capital structure and is expected to improve the entity's cost of capital. SemGroup is targeting an 8% compound annual growth rate and dividend coverage of 1.5x or greater through 2018.

In other M&A news, Great Plains Energy agreed to acquire Westar Energy in the largest utility deal of the week. The $12 billion cash and stock transaction creates a leading Midwest electric utility.

Capital markets activity was light last week as many in the investor community attended the largest MLP industry conference.

This week Fed Chair Janet Yellen will dominate a quieter week with a speech to the World Affairs Council of Philadelphia. The speech may offer clues to the next Fed rate hike. And in energy, we'll see if the supply and demand trends continue.

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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