Tortoise Capital Advisors

Tortoise QuickTake Podcast

June 20, 2016

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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 last week.

The energy sector as measured by the S&P Energy Select Sector® Index made a Cleveland Cavalier like comeback last Friday in a valiant effort to end the week in positive territory. The effort came up a little short as the S&P Energy Select Sector® Index fell (0.2%) last week while the MLP sector represented by the Tortoise MLP Index® declined by (1%) last week. Marcellus natural gas producers were the strongest performers in the energy sector last week, rising by an average of 3% while refiners were the weakest performers falling by an average of (8%) last week.

Oil and natural gas prices moved in opposite directions last week. Oil prices declined by (2%) despite fundamental data released last week that is supportive of higher oil prices including declining U.S. crude oil inventories, lower U.S. production, and data from the International Energy Agency or IEA.

Lower oil prices last week occurred as investors moved to reduce risks in advance of Britain's June 23rd vote on whether to leave or stay in the European Union. Conversely, natural gas prices rose again last week by 7%. Above average temperatures and forecasts for more of the same throughout the summer are sending natural gas prices higher.

As previously mentioned, the IEA released its June oil market report last week. The report provided data that continues to point toward higher oil prices. Here are some of the highlights. First, global oil supply in May was reported being 590,000 barrels per day lower than a year earlier - the first significant decline since the start of 2013. OPEC production was higher in May of 2016 than the previous year and many oil bears continue to point to the potential for higher output from Saudi Arabia, Iran, and Iraq. However, few realize that oil production in seven of the 13 OPEC countries actually decreased year over year. The most meaningful year over year OPEC decline came from Nigeria where oil production fell by 390,000 barrels per day to 1.4 million barrels per day. In Kansas City, we watched the Nigerian nightmare - Christian Okoye wreak havoc on the NFL in early 1990s. Currently, Nigeria is experiencing its own Nigerian nightmare from the Delta Avenger rebel group whose goal is to reduce Nigerian oil production to zero. A second highlight relates to a part of the supply/demand equation that few discuss and that is oil demand. Similar to last year, the IEA increased its global oil demand forecast in its June report. Last year, the IEA started to increase its oil demand forecast in June ultimately raisings its 2015 forecast from 1.1 million barrels per day to 1.7 million barrels per day by the end of 2015. The IEA is following a similar pattern in 2016 as well, raising its 2016 growth forecast from 1.2 million barrels per day to 1.3 million barrels per day after experiencing oil demand growth of 1.6 million barrels per day in the first quarter of 2016. The last piece of noteworthy data from the oil market report came from the IEA's projection for U.S. shale oil. The IEA forecasts U.S. shale production to fall 503,000 barrels per day in 2016 and another 192,000 barrels per day in 2017. Notably, the Permian Basin in West Texas is the only U.S. shale production basin that is forecasted to grow production in 2016 and 2017. More on the accelerated development of the Permian Basin in a minute.

The forgotten commodity - natural gas had some noteworthy news as well. Over the next decade, U.S. natural gas production is forecasted by the Energy Information Administration (EIA) to grow by 28%. While we have heard a lot about Mexico during this political season, Mexico is often overlooked when discussing global energy demand. Mexico's utilities are increasing their demand for natural gas shifting the fuel source of electric generators to natural gas away from fuel oil and imported LNG. The source of Mexico's natural gas is the U.S. as critical infrastructure is being constructed. Last week, Spectra Energy announced a $1.5 billion project to build a new 2.6 billion cubic feet per day natural gas pipeline from south Texas to Brownsville, Texas. Simultaneously, TransCanada and IENOVA announced that they were awarded a contract to extend the natural gas pipeline from Brownsville, Texas 497-miles to Tuxpan located in the Mexican state of Veracruz. These projects are slated to be complete by 2018.

The last piece of significant news in the energy sector last week involved a transaction between Pioneer Natural Resources and Devon Energy Corporation. Pioneer expanded its already large footprint in the coveted Permian Basin by acquiring 28,000 acres from Devon. We think this represents a true win-win transaction for both companies. Upon closing, Devon will be able to improve its balance sheet by reducing debt. Pioneer will expand its already large footprint in the Permian Basin picking up acreage in the coveted Wolfcamp B formation in the prolific Martin and Midland counties. In conjunction with the transaction, Pioneer increased its 2017 production growth forecast as the company announced plans to add five horizontal rigs during the second half of 2016. The Permian Basin is distinguishing itself from the other U.S. shale oil basins due to the stacked nature of the basin. What does that mean? Think of a layer cake, the more layers you add the better it tastes. The largest cake with the most layers is in the Permian Basin where producers believe they can economically produce oil from as many as five layered per well drilled. To put this in perspective, most oil and gas basins only have one or two prospective layers of successful drilling opportunities. In addition, the Permian has experienced the most significant improvements in drilling productivity. For example, since 2014, Pioneer has reduced its drilling cost per foot by over 30% as well as recently increasing the volume of oil they expect to recover by 35%. Lower costs and higher recovered volumes reduce the absolute oil price required to economically produce oil allowing Pioneer and others in the Permian Basin to grow production volumes and gain market share in 2016, 2017, and beyond.

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

The S&P Energy Select Sector® Index

The S&P Energy Select Sector Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

About Tortoise MLP Index®

The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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