Tortoise QuickTake Energy Podcast

July 19, 2018

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 Portfolio Manager and Managing Director Rob Thummel with a special podcast on what we think is a positive regulatory decision out of the FERC last night. So, last night the FERC issued its final notice of proposed rule-making or (NOPR) related treatment of income taxes for natural gas cost of service pipelines.

As you recall back in March of this year, the FERC stirred up the MLP sector when it issued a notice that essentially said that interstate natural gas pipelines organized as MLPs would no longer be allowed to recover income tax allowances in cost of service rates.

The original FERC notice required a one-time filing (FERC 501-G) to determine if pipeline rates are just and reasonable based on the change in income tax rates from 35% to 21%. The final notice maintains the one-time filing requirement as well as provides interstate natural gas pipelines some options to address the lower tax rates including the following:

(1) File an adjusting rate by the percentage reduction in the corporate income tax rate

(2) Commit to file an uncontested rate settlement or a general rate case by Dec. 31, 2018

(3) Pipelines could explain why no rate change is needed

(4) Take no additional action

FERC's final rule issued last night included a few changes to the March ruling that we think will positively impact MLPs that operate cost of service pipelines. So here are a few of the specific changes.

(1) If an MLP files a rate case with the FERC then the FERC will allow the pipeline to only reflect the change in the corporate tax rate from 35% to 21%. So what this means is that MLPs would not have to eliminate the entire income tax allowance in its filing.

(2) The FERC guaranteed that it would not initiate a rate case on a pipeline owned by an MLP for three years as long as pipeline is earning a return on equity of 12% or less after factoring in the change in the corporate tax rate.

(3) The FERC stated that an income tax allowance can remain in the rates for pass-through entities like MLPs if income or losses from the pass through are consolidated on the tax returns of a corporate parent. We believe this will have a positive impact on some of the drop down stories for interstate and natural gas pipelines with a corporate parent.

(4) Then lastly, FERC stated that negotiated rates would not be impacted by changes to cost of service rates. Keep in mind that we believe a majority of the pipelines put into service over the past decade are operated under negotiated rates. Additionally, we expect most if not all of the future pipelines that are constructed will be operated under negotiated rates as well.

The FERC held firm its policy that it would disallow an income tax allowance for MLP pipelines that use cost of service rates going forward. Once again, another reason why negotiated rates with be the preference for new pipelines in the future in our opinion.

What does this mean going forward?

In our opinion, we believe the issuance of this final ruling revives MLPs as some declared MLPs were dead in March. We believe this ruling removes uncertainty from the MLP sector allowing investors to focus on the cash flow growth tied to the expansion of the U.S. energy infrastructure network.

That's it for this special podcast. Thanks for listening and we'll talk to you again 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.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention.*