

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.

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Wow, what a week we had to close out the quarter. The only event with more speculation and anticipation than the informal OPEC meeting was the 2016 Presidential debate. At least the OPEC members didn't resort to name calling. Regarding the International Energy Forum...I hope you are all sitting down! It actually lived up to the hype! For the first time since 2008, OPEC agreed to cap output at its November meeting with a production level of 32.5 to 33 million bbls/day. This compares to August production of 33.25 million bbls/day, however this is roughly where they had been producing for the first half of the year, and above 2015 production levels. Nonetheless, any agreement is viewed as a positive, and accordingly oil spiked 6% after the news broke.

Since Friday brought the completion of the quarter, I'm going to change things up and hit quarterly, rather than weekly, returns; so for the 3rd quarter:

- Oil was essentially flat losing 19 basis points,
- The S&P Energy Select Sector® Index gained 2.3%
- E&Ps added 7.6%
- and MLPs were up 3.2%

It was an extremely active week for deal activity too. First, TransCanada offered to buy the outstanding CPPL units for \$15.75 of cash. I think the deal was best summarized by one of the other PMs (whose name I won't share) when he said, "Well that was underwhelming." Apparently the market had a similar take given that the deal traded above the offer price following the announcement. Importantly, this is only an offer from TRP and now must go to the CPPL board for consideration. Additionally, the deal requires a majority vote of the common unitholders, and while TRP holds 57% of the outstanding units, only 7% are common units while 50% are subordinated and cannot vote. Something tells me this isn't the final chapter in the CPPL story.

Also, Sunoco Logistics announced a deal to acquire Vitol's Permian crude oil system for \$760 million. The assets include a 2 million bbl terminal in Midland, a gathering and mainline pipeline system and a 50% interest in a pipeline joint venture feeding into Sunoco's PE2 pipeline. Sunoco already owns 50% of the JV pipeline. In conjunction with the deal SXL issued 21M units and its GP will waive \$60M of IDRs evenly over the next two years.

The 3rd deal announced was the combined Rice Energy and Rice Midstream acquisition of Vantage Energy for \$2.7 billion. Rice will pay \$2.1 billion for the upstream assets and RMP will pay \$600 million for the midstream assets. The upstream assets include 85,000 net acres in Greene County Pennsylvania and 37,000 acres in the Barnett Shale with about 400 mmcf/d of current production. The midstream assets include 30 miles of dry gas gathering and compression assets. The acquisition increases drilling locations for RICE by 66% and extends RMP's 20% distribution growth CAGR out to 2023. The equity portion of the deal was funded at RICE by a public equity offering and shares issued to the seller and at RMP through a PIPE offering with a group of institutional investors, including Tortoise.

Not to be left out of the party, Shell Midstream Partners also announced an acquisition of a 20% and 49% ownership interest in Mars and Odyssey oil pipelines, respectively. The acquisition was made from its parent and reflects an 8.4x multiple of 2017 EBITDA.

Regarding non-deal news, the press release factory that is Williams, made several governance-related announcements. First, industry veterans Steve Chazen and Peter Ragauss have been appointed to the board of directors, Next, three of the board members who served prior to 2016 will not stand for re-election at the November meeting. And finally, Stephen Bergstrom, Steve Chazen and Kathleen Cooper will now make up the Nominating and Governance Committee with the goal of adding two additional nominees for election this year. The net result is that following this year's meeting, the 11 member board will very likely be made up of 10 independent members of which seven are newly appointed this year and bring significant industry expertise. As a result of the announcement, activist investor Corvex Management withdrew its proposal to nominate an alternate slate of directors.

Well, that'll do it for this week, 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

The S&P Energy Select Sector[®] Index

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