Tortoise QuickTake Podcast

October 10, 2016

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.

News related to oil prices dominated the energy sector last week. The U.S. Energy Information Administration (EIA) reported a 38,000 barrel per day decline in U.S. crude oil production. Since April, U.S. oil production has been consistently lower than the previous year by at least 700,000 barrels per day. Also, U.S. crude oil inventories unexpectedly fell by three million barrels last week. It was the fifth consecutive week of inventory declines. Crude oil inventories fell by 23 million barrels during the month of September - one of the largest monthly declines in recent history. Lastly, OPEC and non-OPEC producers announced that discussions will continue in Istanbul this week as both parties look to formalize an agreement to cut production. We are 51 days away from the formal OPEC meeting in Vienna. OPEC's stance has quickly shifted from being uncooperative to accommodating. The trifecta of lower oil production, declining inventories and advanced OPEC discussions pushed oil prices higher with WTI rising by 3% last week. Oil and gas producers represented by the Tortoise North American Oil & Gas Producers Index℠ eked out a small gain of 0.2% last week. MLPs represented by the Tortoise MLP Index® were not as fortunate falling by 2%. As we enter a new OPEC era, keep your eye on movements in the oil futures curve. So far, spot oil prices have risen by 11.5% post-Algiers. The futures curve over the next twelve months has shifted higher by roughly the same percentage.

The third quarter earnings season begins in a few weeks. What do we expect to hear on the third quarter conference calls?

From oil and gas producers, we expect the theme of production beats and guidance raises with minimal capital expenditure increases will carry over to the third quarter as drilling efficiencies continue to be realized. Specifically, Permian and SCOOP/STACK producers are likely to report even better individual well results than the previous quarter while oil production declines will likely to continue in the Eagle Ford and Bakken. Natural gas producers are seeing very low prices in the Northeast; however, most producers are shielded for now from realizing these low prices due to hedges or delivery location. We are watching if these historically low prices will have an impact on Marcellus production growth in the future.

In the midstream sector, our eyes will be on dividend and distribution growth as higher distributions remain an integral part of the MLP story. Analyst estimates of third quarter distribution growth for the MLP sector range between 1.3 - 1.5% translating into approximately 6% in annual distribution growth. The MLPs sponsored by U.S. refiners that own energy infrastructure assets are forecasted to deliver some of the highest quarterly distribution increases amongst MLPs. These "drop-down" stories like Valero Energy Partners, Phillips 66 Partners and Shell Midstream Partners are expected to grow quarterly distributions by almost 6% which is approximately 25% per year, which would be the largest in the MLP sector. We are already off to a good start on the growth front with Enterprise Products Partners, Tallgrass Energy Partners and Tallgrass Energy GP raising distributions last week by 1.3%, 5.3% and 7.1%, respectively. In addition, we will also be interested in updates on the potential for new infrastructure projects to support oil and gas production growth in the Delaware Basin in West Texas as well as the SCOOP/STACK in Oklahoma. Lastly, we are curious to hear any new information about the pipeline regulatory process that seems to be getting more complicated by the day in the Northeast and Bakken. Don't forget that keeping energy costs low should be one of the most important factors in the minds of regulators. Pipelines are the most cost effective means of transporting crude oil and natural gas.

In company specific information, Encana held an investor day offering some great insight into 2017 and beyond that likely carries over the many other oil and gas producers. Encana is transforming from a pure-play natural gas producer into a company with a more balanced production mix. Two years ago, Encana used an acquisition as its launching pad into the Permian Basin. Today, Encana is reaping the benefits of this acquisition. Displaying the true potential of the Permian in our view, Encana's Permian production is forecasted to grow by 30% per year for the next five years. Also, Encana's capital expenditure budget for 2017 is expected to be 39% higher than 2016. Oil and gas producers as an industry have cut capex the past two years. It appears that some oil and gas producers will return to growth mode in 2017. Of the 13.9 billion in oil & gas producer M&A activity during the third quarter, 55% or 7.6 billion involved acquisition of Permian acreage.

Finally, if you persevered through the end of the second presidential debate you heard a civilized discussion about energy policy from both candidates. A recent report from the U.S. Chamber of Commerce made a great case for the U.S. energy sector and the potential for a future energy policy. Here are some highlights from the report. Call it what you want - U.S. energy renaissance or shale revolution - since 2009, the U.S. energy sector changed the course of history that will have a profound effect in the U.S. and across the globe for years to come. First, consumers are saving money. While the consumer price index has risen by 12% since 2009, the costs of basic necessities like food are 16% higher than 2009. Conversely, the cost of gasoline and electricity are lower by 43% and 31%, respectively. Approximately two million jobs have been created as a result of the energy renaissance. Also, the U.S. relies less on foreign suppliers of energy. Net imports of crude oil and refined products have declined to 24% of total U.S. demand down from 60% in 2006. And thanks to increased use of natural gas, carbon emissions from the electric power sector are 19% lower than 2006 despite total electricity generation remaining flat. Lastly, the U.S. energy renaissance contributes approximately $548 billion annually to U.S. GDP. All of these points highlight the benefits of the U.S. energy sector.

That's all we have for this week, thanks for listening and we'll 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

About Tortoise North American Oil & Gas Producers Index℠

The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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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