Tortoise Capital Advisors

Tortoise QuickTake Podcast

January 30, 2017

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.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

As a big fan of movies, I was trying to capture the beginning of 2017 with an appropriate movie title. I think the best description is easily, "The Fast and the Furious". The pace of news is staggering. A normal earnings cycle has been accelerated by high deal flow and even stronger news flow with President Trump seemingly impacting the market daily. Luckily most of the news has been pretty constructive. As the immortal Ferris Bueller stated, "Life moves pretty fast. If you don't stop and look around once in a while, you could miss it". With that, let's pause and take a look at the past week in energy.

Let's start with a quick look at market performance:

On the commodity front, crude oil was higher by about 1.4%, while

- Natural gas was up big, plus 5% for the week on cold weather and good storage numbers
- Shifting to equities, the broader S&P Energy Select Sector Index finished marginally lower, down 54 basis points
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠, were also slightly down, falling 13 basis points
- And finally MLPs had a solid week, as the Tortoise MLP Index® moved up nicely, plus 4.7%

As noted, it was a busy week, so we'll go through in rapid fire fashion to hit on all the big news:

Jagged Peak, a producer focused on the southern Delaware portion of the Permian Basin IPO'd on Thursday, raising $474M in the week's only new offering.

Targa Resources announced the first of two Permian basin acquisitions last week, with the purchase of Outrigger LLC, a Permian basin crude oil and natural gas gathering and processing company for $565M upfront and the potential to increase to approximately $1.5 billion if future performance targets are achieved. Targa also completed a $456M offering on Monday morning to help finance the transaction.

Plains All American also executed a Permian basin transaction, acquiring the Alpha Crude Connector crude gathering system for approximately $1.2B, which was jointly owned by Concho Resources and private company Frontier Midstream. Plains also announced incremental asset sales as well as heavy issuance via their at-the-market program to help fund the acquisition. Plains and Magellan continued the strong Permian theme with an announced expansion of the 300,000 bpd BridgeTex pipeline to 400,000 bpd. PAA and MMP are 50/50 JV partners.

This marks the second announcement by a midstream pipeline company to expand an existing pipeline out of the Permian so far this year. We would expect future announcements as well as the announcement continues to highlight the excellent outlook for what we feel is the premier basin in the United States.

The second largest Canadian midstream company, Enbridge Inc., ticker ENB, announced a series of updates, along with its MLP, Enbridge Energy Partners, ticker EEP. First, ENB will roll-up MidCoast Energy Partners, purchasing the outstanding units from the public for approximately $8 per share. Second, EEP will continue with its strategic review, which notably may include a distribution cut to improve coverage and bring leverage more in-line with rating agency views of an investment grade rated credit. In our view, this is a disappointing initial outcome and certainly not indicative of the parent sponsored support that we anticipated within the Enbridge family of securities.

The first yieldco to announce fourth quarter earnings, NextEra Energy Partners, outlined a strategic action whereby it will modify its existing incentive distribution rights fee structure with its parent company, NextEra Energy and cap future IDRs at 25%, versus the current 50% take. We view this as a strong positive and provides better line of sight to distribution growth at the yieldco in the future as cost of capital will be more competitive.

Kinder Morgan, on Wednesday, held the only analyst day within energy and it was generally pretty uneventful. The main discussion point revolved around potential JV partners for their Trans Mountain Expansion project in Canada. No partners have been brought on board as of yet, but we would expect an announcement in 2017.

Let's shift gears now and hit on a few noteworthy regulatory items for the week:

President Donald Trump followed through on campaign promises to greenlight pipeline projects that were previously being held up by government intervention or delay. On Tuesday, President Trump signed executive orders for both the Dakota Access Pipeline, or DAPL, and the Keystone XL pipeline. It should be noted, these orders simply help push along the process, but do not allow for the pipelines to proceed just yet

More to be done, but we do expect positive outcomes, especially in the near-term on DAPL. TransCanada, the owner of the Keystone XL project, was invited to resubmit their application to the State Department, which they have promptly done. FERC Commissioner Norman Bay announced his departure, effective February 3rd, after President Trump tapped existing Commissioner Cheryl LaFleur as the new chair. This does present a potential problem as FERC requires a quorum to come to decisions, such as issuing pipeline certificates, and with Bay's exit, FERC will be left with just 2 out of 5 existing members. Given the time it takes to get a new individual approved and brought on board, it may result in delays in pipeline approvals. We'll be watching this carefully to say the least, yet would note that an expedited process could take place to ensure continuity within the agency. Finally, the IRS had issued qualifying income rules for MLPs as part of the last actions from the Obama presidency. The rules were generally favorable as they eliminated the listing of activities that qualified and broadened the scope. Of course, under President Trump there was a freeze of all new regulations. However, this one was allowed to be published in the Federal Register, which makes it official. It was positive for steam crackers, which were previously viewed as non-qualifying.

While not meaningful for pipeline companies, that have always qualified, we view it as positive for energy broadly and for MLPs specifically as the government contemplates tax reform

I think it's now time to call it a wrap…have a great week and we look forward to speaking with you again soon.

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.

Tortoise North American Oil & Gas Producers IndexSM
The Tortoise North American Oil & Gas Producers IndexSM 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.

The Tortoise indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline IndexSM and Tortoise North American Oil and Gas Producers IndexSM (the "Indices"). The Indices are not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices LLC"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").

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.

Tortoise MLP Index®, Tortoise North American Oil & Gas Producers IndexSM , (the "Indices") are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices) to calculate and maintain the Indices. The Indices are not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").