Tortoise QuickTake Energy Podcast

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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 Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast.

Let me start by saying thank you to all veterans for your service. Many of my Tortoise colleagues served as well including Brian Kessens, Braden Cielocha, and Matt Blind and Jeremy Goff.

Looking at performance last week, the energy sector and MLPs delivered positive returns with the energy sector as represented by the S&P Energy Select Sector® Index rising by 1.2% while MLPs represented by the Tortoise MLP Index® increased by 2.4%.

Last week, oil prices captured the attention of many energy investors. Crude oil prices fell 4.7% and have declined for ten consecutive days. The financial media highlighted the bear market for oil as prices have fallen by 21% after reaching highs on October 3rd. Why the steep fall in prices? Effectively, too much supply came to the market too fast. Last week, the EIA reported a 400,000 barrel per day increase in U.S. oil production. In addition, OPEC, specifically Saudi Arabia, has been increasing oil production in anticipation of the Iranian sanctions that were supposed to eliminate all Iranian oil production. While sanctions took effect on November 5th, the Trump administration granted six-month waivers to eight countries including China and India effectively keeping oil production flowing in Iran. So, what happens next? We expect to hear increased chatter from OPEC. Over the weekend, the OPEC-Non-OPEC Joint Ministerial Monitoring Committee met in Abu Dhabi to discuss the production cut agreement. The Committee acknowledged higher supply growth than necessary and recognized the potential for a wider gap between supply and demand. In response, Saudi Arabia is going to decrease oil exports by 500,000 barrels per day in December. The 175th OPEC meeting is December 5th in Vienna. We expect members of OPEC to reduce production from current levels in response to the recent decline in oil prices. At Tortoise, we forecast U.S. WTI oil prices to range between $65-$75 per barrel for the remainder of 2018 and 2019.

In my opinion, the commodity that didn't get enough mention was natural gas. Natural gas prices spiked by 17% last week. Why? Natural gas inventories entering the winter heating season are at the lowest levels since 2005. An early cold snap spread across the U.S. last week resulting in a rise in natural gas prices. As usual, winter weather will have a significant impact on natural gas prices over the next several months.

On the elections front, Proposition 112 in Colorado was defeated. Recall, Proposition 112 was deemed an anti-drilling initiative that would have effectively banned the new drilling of oil and gas wells in Colorado. Last Tuesday, the initiative was voted down with 57% voting against and 43% voting for Proposition 112. Colorado did elect a Democratic governor and the Democrats won control of both houses in the legislature. While the proposition was voted down, we expect oil and gas producers in Colorado and the state government to find a compromise on drilling regulations in the state.

Last week was essentially the final week of the third quarter earnings season. Several notable companies reported earnings. First, the largest liquefied natural gas exporter Cheniere Energy reported 3Q earnings. Cheniere beat analyst estimates as well as reported a new 24-year contract with Poland to deliver LNG starting in 2019 with volumes ramping into 2023. This contract is notable as it confirms European demand for U.S. produced natural gas. For Poland, the deal improves energy security allowing Poland to reduce its reliance on Russia as its sole supplier of natural gas. The second notable earnings came from the largest midstream company to report last week – Energy Transfer. Energy Transfer delivered third quarter EBITDA that was 10% higher than analysts expected. New oil export infrastructure was the theme of the second quarter. New natural gas liquid fractionation facilities is a big theme in the third quarter. Energy Transfer joined the list of NGL infrastructure companies constructing new natural gas fractionation facilities in Mont Belvieu, Texas. Energy Transfer plans to build its seventh fractionation facility. Last week, Targa Resources also announced plans to build two new fractionation trains in Mont Belvieu. And in September, Enterprise Products announced plans to build its tenth fractionation facility in Mont Belvieu while ONEOK announced its fifth facility.

In other news, we are nearing the end of MLP simplifications. Last week, Western Gas did its part to re-focus investor attention on the positive fundamental backdrop supporting the MLP sector. Western Gas announced a simplification transaction that includes a merger of the general partner stock WGP and the limited partner stock WES. Also, Western Gas agreed to acquire substantially all of Anadarko Petroleum's midstream assets for $4 billion. The incentive distribution rights will be eliminated. WGP forecasts distribution growth of 6% - 8% which results in approximately 1%-2% of year-over-year distribution growth for current WES shareholders. At Tortoise, we believe this transaction is a win for WGP, WES and APC shareholders.

Last but not least. Remember the Keystone XL pipeline? Yes, it is the same Keystone Pipeline system that was started in 2010 when I still had hair on my head. Last week, Keystone XL suffered a minor setback when a District Court in Montana halted construction stating that the U.S. government did not complete a full analysis of the environmental impact of the project. This decisions likely delays the pipeline by six months.

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.

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MLPs = 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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