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 Matt Sallee, energy portfolio manager at Tortoise. Let me just start by saying that last week was pretty FERC'n awesome. The pipeline space was propelled higher on Thursday after the Federal Energy Regulatory Commission finalized its gas pipeline order related to the income tax allowance. Thinking back to March you may be asking yourself, "How in the heck was that a positive event?" Well, the finalized order largely unwound the negative aspects of its March proposal to eliminate the income tax allowance for partnerships. For more information on this please refer to our podcast from last Thursday where Rob Thummel discussed in detail.

Furthermore, as we've dug further we found another big positive related to an esoteric component of gas pipelines' rate base. A company can elect to not include a tax allowance in its ROE calculation but can then eliminate the entire liability they have accumulated for deferred taxes from their regulatory balance sheet. As an example in the case of Williams and Spectra, the liabilities total $2 and $3 billion, respectively. I'm no math expert but my calculations tell me that, at an allowed 12% ROE, being able to increase the rate base by $3 billion is a really big deal, even net of foregoing the income tax allowance. It will be interesting to see how gas pipelines proceed because this is only an option for MLPs as the ruling is written. This effectively means that for a FERC-regulated gas pipeline operating in a cost of service framework, the MLP structure may, economically speaking, be far superior to the C-Corp structure. This will be particularly interesting for both Williams and Spectra who have the largest deferred tax liability netting against their rate base.

- Williams is in the process of the C-Corp parent acquiring the MLP and has their special meeting for shareholders to vote on the deal coming up in early August. Do they rethink this strategy given that it results in not being able to capture this material cash flow upside? From preliminary discussions with the management team last Thursday, our read is they will continue down the merger path to simplify the structure.
- For Enbridge it's less straightforward because they are much earlier in the process. At present, ENB has simply made an offer to purchase its MLPs - EEP and SEP. Not to mention that the offer was an insulting no-premium bid but I ranted about that in my May 21st podcast if you want more color on that. So our read on this one is the two conflicts committees have likely been in negotiations since the original offer and if they were close to a deal, clearly it would need to be renegotiated since both SEP's and EEP's financial outlook significantly improved with the final FERC ruling. Furthermore, like I said with Williams it appears the pipeline assets of both EEP and SEP will be more profitable in the MLP wrapper so do they abandon the roll-up all together?

We will be meeting with both companies in person soon and will update you with our latest thoughts in the near future.

Let me quickly switch to company news:

- It was an active week for deals with the closing of Concho's acquisition of RSP Permian, Loew's acquisition of Boardwalk (which ironically closed the day before the FERC ruling pushed its closest peer, TC Pipelines, up 27%) and EQM completed its merger with Rice Midstream.
- Next PBF Logistics announced they are acquiring Crown Point storage terminals near Paulsboro, N.J. for $107 million funded partially through a direct deal with your very own Tortoise.
- And finally, Enterprise is developing an offshore Texas crude export terminal with 2mmbbls of storage capacity and the capability to load VLCCs, the largest class of oil tankers with the capacity of 2mmbbls.

I'll wrap it up with earnings which kicked off with Kinder modestly beating and they expect to meet or exceed full year guidance on strong volumes. This first indicator of midstream earnings is a positive read-though for other pipeline names where we expect a very strong quarter across most of the space due to strong volumes, tight pipeline capacity and wide basis differentials.

In oilfield services, SLB had a decent quarter with strength in North America in particular and provided a positive industry outlook.

I'll leave it there for now, 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.

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