

Tortoise QuickTake Podcast

October 9, 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 QuickTake Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

Growing up in the 90's, it was sitcom heaven, including my favorite, Seinfeld. One of the many classic recurring story lines was that of Art Vandelay, the fictitious character created by George with a unique job. George wanted him to be an importer. Jerry fired back, "just imports, no exports?" And so it began. Just like a great Seinfeld episode, we'll come back at the end to tie this whole storyline together.

Let's start with a recap of market performance:

- On the commodity front, crude oil had a rough week, down 4.6%, while
- Natural gas also was weak, down 4.8%
- Shifting to equities, the broader S&P Energy Select Sector Index® fell 58 bps
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM, were also negative, down 1.5%
- And finally, MLPs bucked the trend, as the Tortoise MLP Index® increased 1.3%

On the news front, I'll touch on commodities first:

- The rig count was down 4 for the U.S., with oil and gas each down 2 rigs
- Inventories on the crude side drew 6 million barrels supported by lower imports and higher exports, possibly due to Vandelay industries, but no official confirmation could be made
- Gasoline built while distillates drew
- As for natural gas, while storage injections are running below the 5-year average, the anticipated heating degree days in October are considerably lower than normal, so we may get off to a weak start to the heating season. This clearly impacted nat gas prices for the week

Internationally, Russian President Vladimir Putin offered up that the current production cut agreement amongst OPEC and other major producers could very well be extended through the end of 2018. Interestingly, Saudi Arabian King Salman made his first ever visit to Russia to meet with Putin and discuss oil output curbs, along with other things.

Shifting to company specific news:

- On the financing side, in the lone issuance of its kind, Plains All American raised approximately \$800 million worth of 6.125% Series B – Fixed to Floating Rate Cumulative Redeemable Perpetual Preferred Units
 - That was a mouthful, but this is a growing source of capital for midstream companies
- Two interesting JVs were announced, both by Targa Resources
 - First, Targa elected to bring in Blackstone for a 25% stake in their Grand Prix natural gas liquids pipeline from the Permian Basin to the Gulf Coast
 - Second, Targa will join forces with Kinder Morgan and DCP Midstream on the proposed Gulf Coast Express natural gas pipeline project from the Permian to the Texas Gulf Coast
- Boardwalk Pipeline Partners announced a restructuring of contracts with Southwestern Energy on its Fayetteville and Greenville laterals. While a unique news item for this week, we have seen a couple of these over the last few years. These

contracts were set to expire in 2019 and 2020 respectively, so Boardwalk offered a reduced volume commitment for the next few years in return for an increase in the years 2021 through 2030. Similar to other, previously announced re-contracting deals, this is net present value neutral for the pipeline company

- And finally, TransCanada formally announced the already anticipated termination of its Energy East project to bring crude oil from the western provinces east to Canada and the U.S.. This was mostly expected, but political pressure and the changing crude oil landscape led to the final decision

And with that, we circle back to Vandelay Industries.

The U.S. has traditionally been known as an energy importer. However, in 2016, several significant firsts took place regarding exports, including:

- The first time in 40 years U.S. produced crude oil was exported outside of North America
- The first liquefied natural gas, or LNG transported internationally
- And the first ethane shipped internationally

The highest ever natural gas export month was January 2017.

The highest ever liquid petroleum gas, mainly propane, export month was March 2017.

Finally, not to be outdone, crude oil exports just had their second straight record setting week, at almost 2 million barrels per day.

In fact, exports are one of the key components of the energy renaissance the U.S. is currently experiencing. To sustain and grow production, exports must be a viable component of a low cost producer.

While exports are clearly beneficial, they do take what was once local and regional markets and turn them into international markets. Additionally, arbitrage opportunities will govern many of these export capabilities. As a result, we would expect increased volatility in these commodities as prices must adjust to clear the market.

A couple of aspects that we feel are often overlooked however are the surety of supply and the rule of law that U.S. exporters provide. Needless to say, it's not the same across the world and companies and countries are willing to pay for that added confidence.

And while we may not be exporting diapers, Art Vandelay would surely be proud...

That will do it for today...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@tortoiseinvest.com.

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The Tortoise North American Pipeline IndexSM is a float-adjusted, capitalization weighted index of pipeline companies headquartered in the United States and Canada. A pipeline company is defined as a company that either 1) has been assigned a standard industrial classification (SIC) system code that indicates the company operates in the energy pipeline industry or 2) has at least 50% of its assets, cash flow or revenue associated with the operation or ownership of energy pipelines. Pipeline companies engage in the business of transporting natural gas, crude oil and refined products, storing, gathering and processing such as gas, crude oil and products and local gas distribution. The index includes pipeline companies structured as corporations, limited liability companies and master limited partnerships (MLPs).

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