

Tortoise QuickTake Podcast

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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.

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

It was another wild ride for energy last week with MLPs hitting their lowest level since April 2016 on Tuesday before rebounding later in the week to finish up 1.9%. Along with MLPs, E&Ps traded up 50 basis points while oil prices lost 1.3% despite positive underlying fundamental data.

Regarding that positive data, last week held yet another nice crude inventory report for the U.S. and storage levels dropping 3.3 million barrels versus the average of 1.2 million average for this week over the last 5 years. This brings the cumulative draw since the end of Q1 to 72 million barrels compared to an average seasonal reduction of 14 million during this time frame.

It was a pretty quiet week on the company news front but there were a couple of noteworthy items. First, Sempra Energy announced an agreement to acquire an 80% interest in Oncor Delivery a regulated electric transmission and distribution company. Oncor is the largest T&D provider in the state of Texas, serving 10 million customers and we think arguably one of the most attractive utility assets in the country. In fact, Sempra is the 3rd company who has attempted to acquire Oncor since the company's parent Energy Future Holdings filed for bankruptcy in 2014. Prior suitors, NextEra and Berkshire Hathaway were unable to get the deal to the finish line due to disagreements on deal terms with regulators and debtholders, respectively.

Next up, BHP, the world's largest mining company, announced its intention to sell its lower 48 producing unconventional assets following pressure from an activist investor. This asset package includes acreage in the Permian, Eagleford, Haynesville and Fayetteville. Sell side analysts have estimated the value of these assets at \$10B and one of our consultants calculated an NPV estimate of over \$11.5 billion. Management has laid out various means of divesting the assets including a spin-off, asset swap and finally, a simple asset sale, which we believe is the most likely outcome. Needless to say, the Permian acreage is expected to draw the most interest and it's worth noting the Delaware position matches up nicely with Anadarko's Delaware position in our view. If APC were the buyer of the Delaware land we think it would be positive for Western gas since they provide midstream services for APC in the area.

I want to finish up with some thoughts on Hurricane Harvey. First, we send our thoughts and prayers to those impacted by the storm. As it relates to energy the biggest impact is to the refining sector in Houston and Corpus Christi. Between Friday and Sunday 2.3 million bpd or 13% of domestic capacity has been shut-down due to the storm. This capacity could remain offline for weeks. While there is also some crude and natural gas production shut in we believe this impact will last days not weeks. Similarly, some pipelines have been shut down but we believe the impact will be brief. The bottom line is gasoline prices have increased 15 cents in the wholesale market since last Monday and may jump further, ultimately impacting prices at the pump. This is positive for refining margins but will be offset for those with facilities impacted by the storm. Overall we don't see a material positive or negative impact to our family of portfolios from the storm.

I leave it at that 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@tortoiseinvest.com.

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