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

MLP bulls clearly started the holiday early last week because they sure weren't in the office trading. Volumes were weak and prices got crushed losing 3% despite a flat week for broader energy and strong oil prices.

The week leading up to a holiday is usually pretty quiet and last week was no different. But I did want to cover the EIA monthly energy review. As I was reviewing that data I found it interesting to step back and reflect on some of the numbers which show just how much things have evolved recently in energy. Some examples:

Since I just came from a meeting discussing our various ESG initiatives let's start with the environment. C02 emissions from the power sector declined nearly 30% from the 2005 peak and are expected to decline further. So how is this possible with U.S. power consumption basically at all-time highs? That brings me to my next point.

Electric generation fuel mix over this same time frame has evolved dramatically. Power from coal generation is down 40%. That has been replaced by two key sources. Renewables have almost doubled increasing from 9% to 17% of all power generation. Along with that natural gas is up 70% and has been the single largest source of generation the last three years

This is due to the development of shale resources, but of course you already know that if you're over the age of 10 and have a pulse. This development has led to a 50% increase in natural gas production since 2005 and has resulted in really low and stable gas prices which combined with being much cleaner has led to it replacing coal for power generation. And the growth isn't done by any stretch, production is up 10% this year alone and the Marcellus and Permian still have a long way to go.

Production for crude oil is a similar story, currently up to 11 million bpd, nearly tripling from the lows in the early 2000s. And since the pullback in 2016 from the price collapse, we've already added 2.5 million bpd of production. By the way, our current domestic production is greater than Saudi Arabia and we expect to pass up Russia next year to be the largest producer in the world. Not bad for a country that not long ago was extremely dependent on unfriendly countries for the energy needed to run our economy.

Speaking of imports, the change in terms of net imports of energy is staggering. Net imports peaked in 2005 at over 30 quadrillion BTUs on a net basis. Fast forward to last year that number had shrunk by over 75% to about 7 quadrillion BTUs. For context, last year the United States used a total of 100 quadrillion BTUs of energy. Shifting to 2018, net imports are down year-to-date another 45% relative to the same period in 2017.

To put this in even simpler terms, in 2007 the U.S. had an energy trade balance of -$414 billion representing about half of our country's trade deficit. Last year, this had shrunk to only $57 billion, or about 7% of the trade deficit, and this year it may shrink even further despite significantly higher crude oil prices. Either way, we know the amount of net energy imported will be down big again. I guess my point here is, regardless of your political views, clearly the U.S. energy industry is doing its part to make America great again.

Let me quickly hit key news items in an otherwise quiet week

In oil markets, prices were strong partially due to a Venezuela oil tanker accident which is estimated to reduce already strained exports by a further 200 mbpd for the near term and also U.S. oil inventories fell more than estimated and gasoline, diesel and jet inventories all shrank as well.

We've been talking about the price discount in the Permian a fair bit recently and last week we hit a new multi-year wide spread after the Borger refinery went down for maintenance. This is a short term impact but it just highlights how tight capacity is right now.

In permitting news, EQM had a big win after FERC gave the company permission to restart work on the Mountain valley pipeline along the entire remaining route with the exception of two small sections which are still under consideration.

Unfortunately the Canadian Government was not as lucky Thursday when it denied itself a permit related to the Transmountain pipeline it acquired from Kinder Morgan. I've heard of government bureaucracy but really, they can't approve themselves for a permit?

Finally we saw a management change at Enterprise Products with Bryan Buwala resigning from his post as CFO. He will be replaced by President Randy Fowler who will retain his current role and add the CFO duties, a role he held a few years ago.

That's all for this week, 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.