# Tortoise QuickTake Podcast with Brian Kessens

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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.**

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Last week Father Time's playbook signaled that shorter days are behind us with longer days ahead and many trees assumed the worst of winter was over and began to bud. In the energy markets, there were also signs that the beginning of the next cycle is forming.

OPEC crude oil output fell 90,000 bpd in February and the organization continues to discuss energy cooperation with Russia, identifying a potential meeting in April among the top producer nations.

The inventory number last week focused on gasoline after the crude oil addition was in-line. Though summer driving season is still months away, US gasoline demand has continued to show strength, with the four week moving average at 9.4 million bpd, higher by 610,000 bpd versus the same period last year. Demand pushed gasoline stocks 4.5 million barrels lower last week versus the anticipated decline of 1.5 million barrels.

And further signs of continued price optimism were the US oil rig count continuing its fall (by six last week), with the total US land rig count down by twice that. The IEA also indicated, "prices 'might' have bottomed out" in its monthly oil market report.

Following, crude oil moved higher by 7.2% and natural gas jumped 9.4% last week, with producer stocks increasing 3.6% and broader energy up 2%.

Producer equity offerings continued to indicate energy equity optimism as three deals raised nearly $900 million last week, bringing the year to date E&P equity capital raise to over $10 billion.

Switching gears, MLPs did not keep pace last week, down 1.2%, breaking a string of positive weeks since the middle of February. Part of the midstream concern resulted from a court ruling where a judge made a non-binding decision to reject two gathering contracts of Sabine Oil and Gas, a company currently in bankruptcy. The judge ruled that the covenants do not "run with the land", and that the company can abandon the "burdensome property" and freely negotiate new gas gathering agreements.

The midstream fear is that this establishes a precedent that some gathering contracts may be rejected and treated as an unsecured claim in a bankruptcy process. We take comfort in the fact that Sabine did not seek rejection of its many other gathering contracts (which were seemingly not burdensome), that gathering contracts are all unique requiring different considerations by the courts, and that midstream companies are ultimately the gatekeepers of producer cash flows. Producers are unable to get product to market without paying a midstream operator.

In other midstream news, the largest MLP, Enterprise Products Partners held its annual analyst day. A major theme was exports as Enterprise emphasized crude oil, ethane and propane exports increasing this year. The company is also examining an ethylene export terminal. Note ethylene is the key building block in the production of plastics. Due to abundant supply, we believe access to coastal docks is an increasingly strategic asset for midstream companies.

Another notable item from the analyst day was that a Permian oil project was pushed out one year at the request of a producer – not a big surprise given even Permian volumes are likely to decline before increasing again in a higher price environment. In other project news, the in-service date for the Constitution Pipeline, a pipeline to transport Marcellus natural gas volumes further northeast, was delayed from the fourth quarter of 2016 to the second half of 2017 due to New York permitting delays.

And staying in the northeast, it was reported by the Wall Street Journal that TransCanada is engaged in negotiations with the Columbia Pipeline Group for a potential takeover in what would be the largest midstream deal since last September. TransCanada confirmed it was "in discussion regarding a potential transaction with a third party." Given Columbia's 15,000 miles of interstate pipelines mostly on top of the Marcellus and Utica shale, we don't think it is a surprise that TransCanada would covet such assets. Yet it remains to be seen when the first bear will emerge from hibernation and look for someone to hug. We will continue to look for that first step to greater consolidation.

Certainly there are increasing signs of improvement in the energy sector, yet we think it will likely remain a measured thaw over the course of 2016. It is not as simple as moving the clock forward an hour.

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