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.

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In a holiday-shortened week as expected, it was relatively quiet on the news front. However, despite a slew of positive data, oil posted its worst week since January. Bullish data included a 200,000 barrels per day (bpd) decline in production week-over-week following 220,000 barrels per day (bpd) decline in the monthly data for April. Along with this, demand remains strong up 3% for the four week moving average. However, the market was disappointed by a mere 2.2 million barrel crude inventory draw that came out Thursday after Wednesday night's API data showed a 6.7 million barrel draw. Nonetheless, fundamentals continue to move in support of higher prices with strong demand, lower U.S. production and outages elsewhere, particularly Nigeria where militant attacks last week took out an estimated 500,000 bpd of supply.

So, for the week:

- Oil lost 7%
- MLPs were up 30 basis points, continuing to show a lower correlation with crude
- Meanwhile, the S&P Energy Select Sector® Index lost 1% and E&Ps lost 1.5%

As I mentioned it was a quiet week on the news front, but quickly:

- Noble Energy announced its sale of a 3% interest in the Tamar field offshore of Israel to Israel's largest private equity infrastructure fund for $370 million with an expected 3rd quarter closing this year. After the sale, Noble continues to own a 33% interest, of which it plans to monetize an additional 7-8% which could generate up to another $1.0 billion. This field is estimated to hold recoverable reserves of 10 trillion cubic feet of gas.
- Also, Noble announced production for the 2nd quarter which was 425,000 bpd; a quarterly record and 10,000 bpd over the top end of guidance. The beat was attributable to new wells brought on in the Eagle Ford and gas sales in Israel driven by coal to gas switching.
- Continuing with upstream, Sanchez Energy boosted its liquidity through a $37 million sale of a 50% interest in Carnero Gathering in the Eagle Ford to its affiliate Sanchez Production Partners. Along with the initial payment, Sanchez Partners will assume the remaining capital commitments on the system estimated at $7.4 million.
- As I briefly touched on earlier, following positive news from Nigeria that oil production was up sharply and the government announced they had reached a ceasefire agreement with the Nigerian Delta Avengers, a setback occurred with six militant attacks, some of which sadly resulted in the loss of life.
- Shifting to macro news, OPEC announced a big jump in its June production survey driven largely by a big tick up in Nigeria production following the repair of facilities damaged by militant attacks. Unfortunately for the country as I mentioned earlier, those gains proved to be transitory as a significant amount of production has been lost in recent weeks due to a new wave to attacks.
- In regulatory news, the D.C. Circuit Court of Appeals handed down a decision in United Airlines versus the Federal Energy Regulatory Commission (FERC) questioning FERC's long time stance of allowing recovery of income taxes on rates for pipelines held in the MLP structure. The court has remanded the issue back to FERC, asking them to provide justification for the tax allowance. This has been FERC's position since their last policy statement on the matter issued in 2005. While this unfortunately creates uncertainty, we don't expect resolution anytime soon. While a change in the FERC policy would clearly be negative, it's important to note this would only impact pipelines operating under FERC max-recourse or indexed rates. In other words, a large portion of pipelines operate under negotiated or market-based rates. Those would not be impacted by the potential change.

Capital markets were fairly quiet during the short week, specifically:

- Sunoco Logistics took advantage of record low 10-year rates completed a $550 million offering of 10-year notes priced at with a 3.9% coupon.
- In the high yield market Transocean issued $1.25 billion of senior unsecured notes due in 2023 with a 9% coupon. Needless to say, their creditworthiness is not quite that of Sunoco's.
- In equity markets Seven Generations did a $650 million bought deal to fund a $1.9 billion acquisition on Montenay acreage and producing assets
- Finally, ETP filed an updated ATM program with the potential to raise up to $1.5 billion of equity.

Well, that's all I have for this week…thanks for listening and happy belated birthday America.

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

The S&P Energy Select Sector® Index

The S&P Energy Select Sector Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.