

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.

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

The U.S. oil-directed rig count increased by six, and crude oil stocks fell 2.5 million barrels last week – the sixth rig count increase in seven weeks and the eighth consecutive week of stockpile declines, yet distillate and gasoline inventories rose. Specifically, distillate built 4 million barrels, the largest since the first week of January. The sense is refiners shifted from a gasoline focus to a distillate one, and now are producing more distillate than demanded. Natural gas inventory continued to build, yet the week's injections remain below seasonal norms due partly to the exceptionally hot weather.

For the week then, crude oil improved 1% while natural gas fell just less than 2% - both smaller week-on-week moves than we've witnessed consistently this year. For stocks, MLPs and broader energy gained 2% with producer stocks up nearly that much, at 1.6%.

In news last week, Plains announced a simplification transaction where Plains All American, the LP, will acquire the incentive distribution rights from Plains GP Holdings in exchange for common LP units, implying a transaction value of \$7.2 billion. Also, as we noted in a recent podcast about the potential for a distribution reduction, in conjunction with the transaction, PAA is reducing its distribution 21% and PAGP 11%. We view the transaction as a positive as it improves Plains' cost of capital, strengthens distribution coverage and credit profile, while also simplifying the corporate structure. Both stocks traded well on the news, up north of 10% last Monday, the day of announcement.

In other midstream news:

Kinder Morgan had the largest aggregate sales last week. First, Kinder sold a 50% interest in the Southern Natural Gas Pipeline system to Southern Company for nearly \$1.5 billion. Related, Kinder also sold a 50% interest of the Parkway Pipeline to Valero Energy. We believe Kinder is clearly focused on reducing its overall leverage to be better positioned to grow its dividend sooner rather than later.

The second largest midstream sale was Devon Energy's sale of the Access Pipeline to Wolf Midstream for \$1.1 billion. This sale was expected, as Devon aims to reduce leverage and raise capital for its E&P business.

There was one new midstream project last week. Magellan Midstream Partners announced it will construct a new refined product terminal in Pasadena, Texas for \$335 million. The 1 million barrel terminal will facilitate the growth in refined product exports from the Gulf Coast.

In midstream capital markets, two high yield senior note deals were offered successfully. Holly Energy Partners raised \$400 million and EnLink Midstream Partners raised nearly \$500 million. Notably, both deals were well oversubscribed in a market environment clearly in search of yield.

In E&P news, the two largest acquisitions last week were in the Permian basin. First, Diamondback Energy announced a Delaware basin acreage acquisition for \$560 million, followed by Laredo Petroleum acquiring Midland acreage for \$125 million. Following, both companies tapped the equity markets, Diamondback for \$565 million and Laredo for \$160 million.

This week, energy earnings will kickoff with the largest midstream C-Corp, Kinder Morgan, and the second largest service provider, Halliburton, reporting on Wednesday. Also, Sempra Energy will hold the only energy analyst day this week. We expect Sempra to discuss LNG trends, update Mexican infrastructure needs and highlight renewable developments.

As we deal daily with energy market volatility and change, last week unfortunately was a tragic reminder that life carries its own uncertainty and risk. From Nice, France, to Turkey, to here in the U.S. in Dallas and Baton Rouge, our thoughts are with those victims and families.

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

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