

# Tortoise QuickTake Podcast

September 12, 2016

IN PARTNERSHIP WITH  Montage

**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 Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

This week we are coming to you from Pittsburgh, PA. What comes to mind when you think of Pittsburgh? Some think Roberto Clemente. Sadly, others say who is that? Trivia buffs think Allegheny, Monongahela, and Ohio - the three rivers that meet in Pittsburgh the answer to a common trivia question. Those of us with nothing else better to do other than study energy stocks, think the Marcellus Shale as Pittsburgh is the largest city in the heart of the Marcellus Shale. In our view, the Marcellus Shale is one of the greatest success stories to have emerged in the U.S. energy sector. It has not only altered the North American natural gas market but has also changed the global dynamics for natural gas. The Marcellus has single handedly upended the balance of trade in the global natural gas industry shifting the U.S. from an importer of natural gas to an exporter.

Let's talk about oil prices. What do Vladimir Putin, Mohammed bin Salman, and Tropical Storm Hermine have in common? All significantly influenced oil prices last week. On Labor Day, a report surfaced about a strategic partnership between the world's two largest oil producers Russia and Saudi Arabia. This positively impacted oil prices earlier in the week. The biggest jump in oil price was associated with Tropical Storm Hermine that halted oil and gas production in the Gulf of Mexico. The result was the largest weekly decline in crude oil inventories since 1999, boosting oil prices. For the week, oil prices rose by 3%.

Higher oil prices pushed the energy sector higher as well. The broad energy sector, as represented by The S&P 500 Energy Select Sector<sup>®</sup> Index rose by 1%. Oil and gas producers as represented by the Tortoise North American Oil & Gas Producers Index<sup>SM</sup> rose by 55 basis points while MLPs represented by the Tortoise MLP Index<sup>®</sup> fell by 1% last week.

It was an active news week. Starting with the midstream sector, here we go again as another pipeline company with a large infrastructure footprint spread across the northeast is being acquired. Enbridge and Spectra Energy announced their intention to form the largest North American energy infrastructure company by merging the two corporations with Enbridge being the surviving entity. The stated rationale for the merger for Spectra Energy shareholders includes an upfront payment in the form of an 11.5% premium plus higher dividend growth of 10 -12% through 2024 and a larger backlog of growth projects. The value of the combined entity would be approximately \$127 billion, similar in size to Walt Disney and Citigroup. The transaction is expected to close in the first quarter of 2017.

In the upstream sector, there were a couple of significant announcements as well. First, Apache unveiled a major new gas discovery in Reeves County in West Texas called Alpine High. While this field may be significant, keep in mind that Rome was not built in a day and neither are major oil and gas fields. It will take several years of drilling activity to adequately assess the size and potential of this find.

Have you heard of Pokémon Go!? You might be playing it right now. Many of you have likely collided with a teenager wondering aimlessly down the street looking for that elusive, rare Pokémon. A similar game is being played in the oil and gas sector as producers search for rare acreage around the Permian Basin. Last week, EOG found and captured the coveted Yates Petroleum acreage. EOG paid \$2.5 billion increasing its Delaware Basin acreage position to 424,000 acres. This transaction also increases EOG's premium drilling sites by 40%. As a reminder, EOG defines a premium location as one that generates at least a 30% after tax rate of return assuming a \$40 flat crude oil price.

Finally, last week kicked off the fall energy conference season with approximately 130 energy executives attending Barclay's CEO Energy-Power Conference in New York. We attended and here are a few highlights. One oil and gas producer commented on how the shale wells are the largest wells in terms of production and reserves that he has ever drilled in his 30+ year career. You know what? It probably gets better as the technology is still improving. For example, in the Permian, producers think they can extend lateral lengths of wells by another 3 or 4 thousand feet and can increase volume of sand pumped into each well by an additional 25%. These enhancements could result in ever higher volumes of oil and gas production. Midstream companies highlighted the need for additional energy infrastructure to support two emerging oil and gas basins including the Delaware Basin in West Texas and the SCOOP/STACK in Oklahoma. Lastly, downstream refiners stated their belief that the low refining margins are behind them but remain optimistic about refined product exports that remain high.

That is a lot for a short week but thanks for listening and we will talk to you next week.

**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](mailto:info@tortoiseadvisors.com)**

**Disclaimer:** *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise Capital Advisors believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intent.*

**The S&P 500 Energy Select Sector® Index**

The S&P 500 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.

**About Tortoise North American Oil & Gas Producers Index<sup>SM</sup>**

The Tortoise North American Oil & Gas Producers Index<sup>SM</sup> is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

**About Tortoise MLP Index®**

The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) (“S&P Dow Jones Indices”) to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index<sup>SM</sup> and Tortoise North American Oil and Gas Producers Index<sup>SM</sup> (each an “Index”). S&P® is a registered trademark of Standard & Poor’s Financial Services LLC (“SPFS”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”); and, these trademarks have been licensed to S&P Dow Jones Indices. “Calculated by S&P Dow Jones Indices” and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.