Tortoise QuickTake Podcast

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise will provide a timely update on trending topics in the market.

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So far we are off to a good start for the second quarter, with the energy market showing positive returns in spite of yet another U.S. crude inventory build of 1.6 million barrels reported by the Department of Energy. The week's build was particularly disappointing because just the night before, the API reported a crude stock draw and analyst consensus was the DOE would report a small crude draw as well. We have previously discussed the dynamics leading to U.S. inventory growth in spite of a slightly undersupply global oil market so I won't rehash those points. However, I will put out a shameless plug that, thanks to our outstanding investor relations team, you can find previous podcasts on our website. But let me get back on points. As I mentioned, energy had a good week despite a surprise DOE build. It's always hard to say why oil trades the way it does in any short term period but our belief is the rally is related to OPEC. Specifically, OPEC reported that exports were down 900 thousand barrels per day from February to March. Additionally, the market seems to be gaining further confidence that OPEC will extend production cuts which, ironically, is partially driven by the fact that U.S. inventories continue building. How's that for a circular explanation. Last, on Friday oil was pushed higher, following U.S. airstrikes in Syria. As a result, oil, MLPs and The S&P Energy Select Sector® Index were all positive on the week.

Now I'm going to switch gears to a subject that we have been following closely in the last couple weeks but is not something that is commonly discussed. The topic is anomalies in North America crude location basis. Location basis simply refers to the price difference for similar grades of crude oil at different hubs. Typically in North American for light sweet crude, the price is highest along the Gulf Coast, trades at a slight discount in West Texas and Cushing, Oklahoma, a larger discount in Rockies and North Dakota and yet an ever larger discount in Canada. This is logical as the majority of oil consumption occurs at Gulf coast refineries and the cost to transport oil to this demand source grows as you get further away. However, a confluence of events has recently taken place disrupting these typical basis observations. These events include an outage of the Syncrude Mildred Lake upgrader, reducing supply of crude from Canada, Dakota Access linefill, which is increasing demand of crude from the Bakken field, and finally an outage of the Capline Pipeline. These three separate events all result in lower supply of and higher demand for Midwest crude. As a result light Canadian crude (or Syncrude Sweet) has popped to $5 over WTI per barrel. We have seen this level of premium only one other time going all the way back to 2013 when crude prices were hovering around $100. Additionally, Bakken crude at the Clearbrook Hub is trading $1 over WTI, quite a difference from the days of Bakken crude trading at a $10-$20 discount to pay for rail transport to the East Coast. If you are wondering why we care about crude price differentials it's because it matters to energy companies. As a couple of obvious examples, this is a windfall for producers in Canada and the Bakken since they are getting higher prices than normal. On the flip side, Midwestern refineries are having to pay up for barrels to run their units, hurting their margins. The key question is how long this dymanic will last. In our view, Bakken and Canadian crude will continue to be tight for the next several weeks while DAPL linefill and the Mildred Lake outage continue.

It was a fairly busy week in news starting with

- Tallgrass who Monday announced they will buy an additional 25% stake in Rockies Express Pipeline from Tallgrass Development for $400 million taking their ownership in the pipeline to 50%. As part of the transaction, management will recommend a 12.3% increase in its quarterly distribution over the next two quarters
- Also Monday, EPD shared plans to develop additional ethylene infrastructure at its Mont Belvieu complex supported by new customer commitments. The investment will increase the deliverability of a 5.3 million barrel storage cavern to 2000 barrels per hour and include a new 12 inch pipeline from Mont Belvieu to Bayport, Texas.

- Exelon Generation announced it has sold a 49% interest in ExGen Renewables for $400 million to John Hancock Life Insurance Company. ExGen Renewables is the owner of 1300 megawatts of wind and solar generation assets.
- First Solar announced it has hired advisors to explore a sale of its 50% joint venture interest in 8point3 Energy Partners, owner of 945 megawatts of solar power generation assets. SunPower owns the other JV interest in 8point3.
- Finally, SUN LP, the retail fuel distributor, not to be confused with Sunoco Logistics the pipeline company, announced the divestiture of a majority of its convenience stores for $3.3 billion which will be used to pay down debt. The stores will be sold to 7-11 who also signed a 15 year take-or-pay fuel supply agreement with Sunoco.

Well that will do it 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@tortoiseinvest.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.