MLPA
The Voice of America's
Master Limited Partnerships

# MLPs: INVESTMENTS THAT POWER AMERICA

## Who is MLPA?

The Master Limited Partnership Association (MLPA) is the nation's only trade association representing the publicly traded partnerships commonly known as master limited partnerships. MLPA has successfully advocated for the interests of its member companies in Washington, D.C. and across the country since 1983.

## What is an MLP?

Master limited partnerships (MLPs) are businesses primarily engaged in energy infrastructure for natural resource-related activities (e.g. pipelines, storage, processing, terminal facilities, etc.). The structure – defined by Congress in 1987 – enables qualifying businesses to form as partnerships, allowing income and taxes to "flow through" or be passed on to investors.

This tax structure, along with the potential for regular cash distributions, allows MLPs to effectively raise capital from a broad base of investors through public equity markets. In the decades since their creation, **MLPs have essentially financed the expansion of the nation's vital domestic energy infrastructure**.

## MLPs & Investing

* There are close to 150 MLPs on the market – the majority of which are in industries related to natural resources and investment in energy infrastructure.
* A share in an MLP is called a "unit," and MLP shareholders are known as "unitholders."
* MLPs are publicly traded on the New York Stock Exchange and the NASDAQ Stock Market, as well as many regional exchanges.
* MLPs combine the affordability and liquidity of corporate stocks and bonds with the advantages of investing in a partnership.
* MLPs generally pay investors regular cash distributions (similar to dividends paid by corporations), and many offer growth potential.

**FACT:**

MLPs are financing the energy infrastructure needed to power U.S. businesses and communities – all without government spending.

## MLPs: Integral to American Economic and Energy Growth

MLPs are integral to the private sector's ability to finance the infrastructure needed to fully harness U.S. domestic energy resources. This leads to greater energy independence for the United States and **ensures that a wide variety of energy products make their way efficiently and safely from the production fields to American homes, businesses, and communities** – all without government spending.

## MLPs are Meeting Growing Demand

*The United States and Canada are now expected to require a total investment of more than $640 billion in natural gas, crude oil, and natural gas liquids infrastructure by 2035.*

*-ICF International*


## Proven Economic Value

MLPs generate significant value for the U.S. economy. They raise tens of billions of dollars in private capital and **invest billions** in **energy infrastructure**, support **hundreds of thousands of jobs**, and provide a **reliable income stream** for primarily fixed-income investors.

**MLPs operate in every state** – producing, processing, transporting, storing, and distributing energy products **to meet the needs of American homes, businesses, and communities.** The U.S. economy depends on the free flow of energy supplies, and MLPs play a critical role in this activity.

**FACT:**

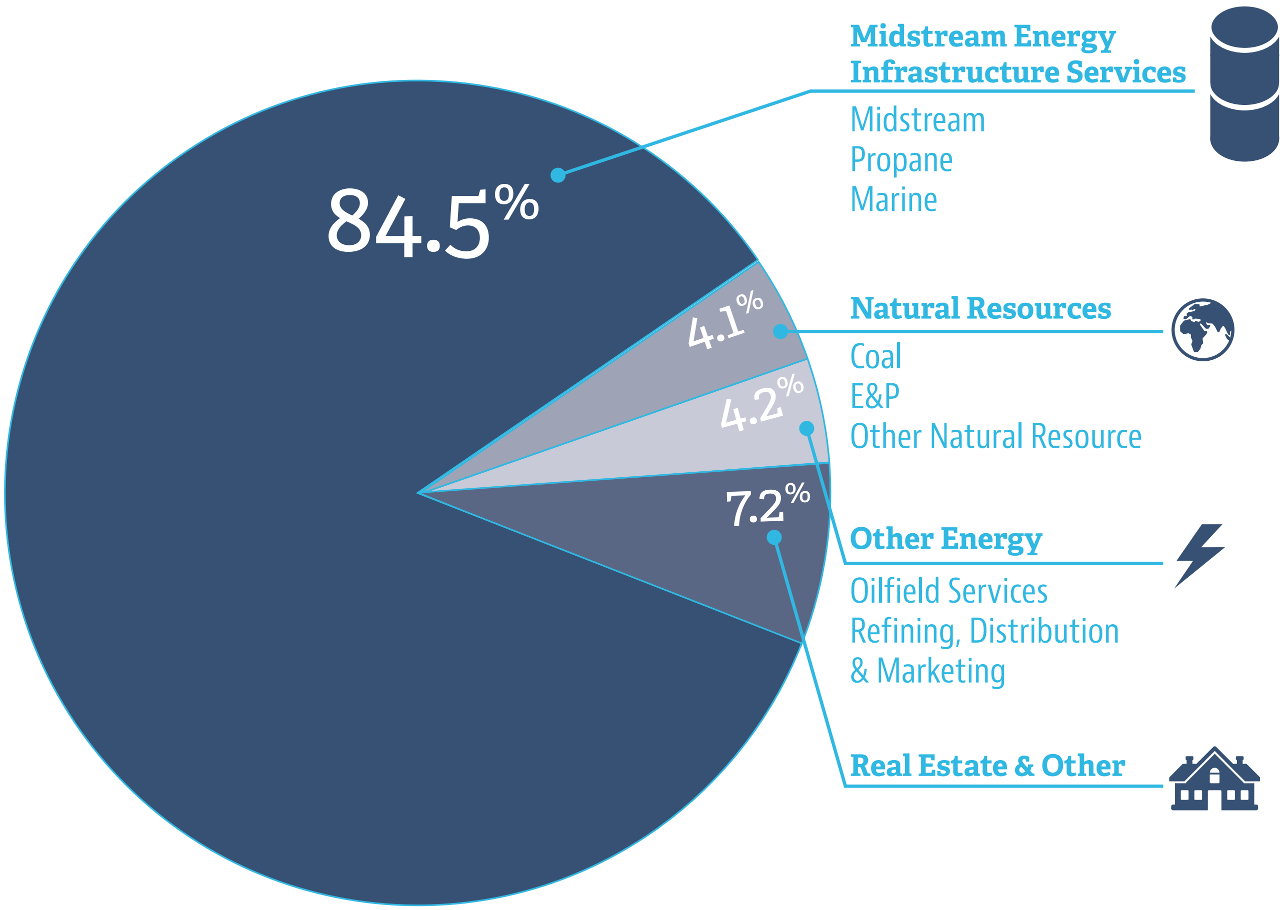
MLPs are an ideal source of retirement income, and nearly 75% of individual investors are over the age of 50.

## Benefits to Workers & Investors

* An MLPA-commissioned study by Quantria Strategies found that midstream energy **MLPs supported approximately 323,000 U.S. jobs** as of 2012, both directly and through supply chain linkage.
* The same study also revealed that the midstream MLP industry would support more than 1.6 million jobs over the following five years, or an average of about 330,000 jobs per year, and would **pay cumulative wages totaling $147 billion over the five-year period.**
* According to data from PricewaterhouseCoopers, nearly 80 percent of this capital derives from individual investors, either directly or through mutual funds and other investment vehicles. **With roughly 75 percent of individual investors over the age of 50, many are seeking retirement income.**

## MLPs' Market Capitalization is Approximately $361 Billion

*As of Dec. 31, 2015, the total market capital of MLPs was approximately $361 billion, 84.5 percent of which is in the midstream energy infrastructure sector.*



## Energy Infrastructure

The MLP structure ensures that domestic crude oil, natural gas, and refined products move efficiently and dependably from the production fields to the marketplace. Midstream energy MLPs finance and operate approximately 400,000 miles of natural gas, natural gas liquids (NGL), refined product, and crude oil pipelines — a vast network, ranging from local gathering lines to major interstate pipelines, traversing the country. **These pipelines are the backbone of the U.S. domestic energy system, serving as the link between energy producers and end–use consumers.**

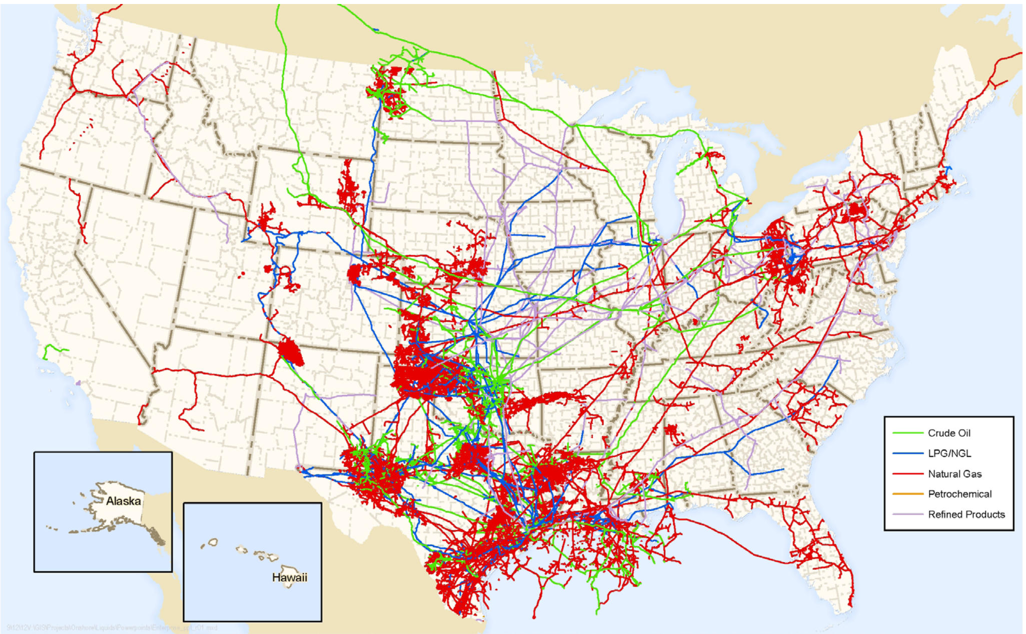
MLPs don't just own and operate existing midstream assets; they are building, expanding, and operating new domestic energy infrastructure projects.

Most importantly, **it is largely the MLP structure that will allow the United States to finance future energy infrastructure projects and realize its potential for energy independence.**

* Pipelines transport **60–70 percent of oil shipments** and essentially **all natural gas in the U.S.**
* In 2014, the Interstate Natural Gas Association of America (INGAA) Foundation estimated that over the next ten years, **North America will need to invest an average of nearly $30 billion per year in natural gas, natural gas liquids, oil pipelines, and related infrastructure.**
* The INGAA Foundation also estimated that from 2014–2035, more than $640 billion of new infrastructure investment will be needed. **Those investments are being made, to a large extent, by MLPs.**
* According to Wells Fargo, the MLPs it covers **invested more than $150 billion in upgrading and building our nation's energy infrastructure** from 2009 through 2015.

## MLPs' Vast Pipeline Network

*MLPs own interest in approximately 400,000 miles of natural gas, natural gas liquids, refined products, and crude oil pipeline.*




Source: Geographic Information Systems (GIS); as compiled by Enterprise Products Partners L.P.

## Tax Treatment

Partnership taxation lowers the cost of capital for a capital-intensive industry and **provides ordinary investors with a reliable income source in return for participating in the build-out of U.S. energy infrastructure.**

* The first MLP was formed in 1981, and by 1987, Congress stepped in to establish the activities that would allow an MLP to receive flow-through tax treatment (IRC § 7704(d)).
* Since then, **MLPs have successfully worked as intended**; they continue to be a catalyst for developing, transmitting, and storing energy resources.
* 90 percent of an MLP's gross income must come from a defined and focused set of activities, including those relating to energy and/or natural resources.
* In 2008, Congress expanded this definition of eligible activities to include the storage and transportation of renewable and alternative fuels, such as ethanol and biodiesel.
* **Nearly 90 percent of all MLPs are in the midstream energy infrastructure services or natural resources sectors.** Activities of those operating in the midstream energy sector include: natural gas gathering and processing; transportation of natural gas and associated liquids, crude oil, refined products, and petrochemicals; and distribution services.
* Non-midstream MLPs include wood pellet processing, fertilizer production, and mineral extraction, among others.

**FACT:**

MLPs are helping pave the way toward U.S. energy independence and security.

## MLPs and the Energy Future

MLPA strongly recommends that Congress **continue to preserve the ability of business enterprises to choose the structure that is the most efficient and effective** for their particular business activities. In particular, MLPA believes publicly traded entities that are currently able to choose flow-through taxation – due to their congressionally-authorized specific activities – should be allowed to continue doing so. **To do otherwise would slow the nation's progress toward energy independence** by reducing the capital available for energy infrastructure and other essential investments.

* A study by the former Assistant Treasury Secretary for Economic Policy and the Deputy Assistant Treasury Secretary for Tax Analysis estimated that the higher cost of capital resulting from corporate taxation of MLPs would reduce pipeline investment by close to 30 percent – or more – immediately following the change to corporate tax status, with investment still 13 to 20 percent lower 10 years after the change.
* A failure to build this infrastructure and deliver energy to consumers, U.S. businesses, and households would lead to several billion dollars in higher annual energy costs – and potentially even higher costs if reduced investment in energy transportation infrastructure led to serious bottlenecks that impacted energy prices.
* Analysis by Quantria Strategies in 2012 found that if midstream energy MLPs were subject to corporate-level tax, total annual employment would decrease by more than 27,000 jobs over the next five years and wages paid to workers directly and indirectly by the sector would decrease by about $2 billion.

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