NATIONAL ASSOCIATION OF PUBLICLY TRADED PARTNERSHIPS

2014 ANNUAL MEETING

REPORT OF THE EXECUTIVE DIRECTOR

Looking back at the past year, it seems to have been primarily a continuation of the trends in the MLP world that we were seeing at this time in 2013—in some cases at more intense levels, in some cases more moderate ones. Some of these trends pose challenges for the Association, others are just interesting to observe.

New MLPs were pouring into the market then, and some of them, under the authority of record numbers of private letter rulings, were operating in industries and in ways that were different from more traditional MLPs. This trend continues as MLPs reach the market with a variety of activities and structures, but the pace has moderated somewhat. The push into new activities via private letter ruling has ground to a temporary halt while the IRS decides on the standards it wants to apply to less traditional MLPs.

The growth in numbers occasioned by IPOs has been offset by a stepped-up pace of mergers, acquisitions, and interesting metamorphoses. This is a phenomenon I don't particularly like, not only because it forces me to constantly update various lists, but also because when one Association member acquires another, that's one less dues payment for us. So far, however, the IPOs have produced enough new members that this has had a negligible effect on Association finances

. Membership continues to grow at a healthy pace, fueled, in this past year, both by newer MLPs (often prompted by a desire to present at the MLP Investor Conference) and by service companies who increasingly are beginning to or would like to work with them. Last year membership stood at 137. This year we are up to 155, of whom 88 are MLPs, 41 are service company members, and 26 are buy-side associate members.

Our membership reflects much of the diversity of the MLP world at large. While the traditional midstream companies continue to be the majority of our members, we also have a sizeable contingent of upstream MLPs, as well as MLPs in the other oil and gas sectors. We also, however, have coal MLPs, fertilizer MLPs, and MLPs involved with other natural resources. The results of a PLR is often a new Association member: oilfield services MLPs providing frac liquids services and frac sand to producers have found their way to NAPTP; and others will undoubtedly follow. This diversity can only help us in our efforts to show the many ways in which MLPs benefit the economy

As our membership has grown, so have our income and financial assets. This is important, because it makes us better equipped to deal with any challenges that come from Capitol Hill as well as serve our members better. Some people at this meeting can probably remember when NAPTP's budget was a few hundred thousand dollars. This year we are looking at income of about $2.4 million and another million in the bank for a rainy day.

Another trend that we have been watching for a while is of course the Congressional desire for tax reform, which has been associated with increased visibility of MLPs to the Washington community of lawmakers and policy wonks and to the financial and general media. No longer able to operate under the radar, we have been forced to step up our game—and we have done so.

The most significant legislative development of 2014 so far has been the Camp tax reform proposal. Although there is no likelihood of its being enacted in this Congress, and probably not the next, it nonetheless stands as a template for future tax reform efforts. It is a thoughtful plan developed after months of hearing and input from stakeholders, and even though it will not become law, pieces of it undoubtedly will appear in future proposals. It lays out for lawmakers what the tradeoffs are between long cherished tax provisions and lower tax rates. Most industries found that they didn't like the particular tradeoffs the Camp proposal made, and this highlights the reason why tax reform is so difficult—no matter how rational and fair the change, it creates winners and losers.

Thanks to NAPTP's and its members' advocates on Capitol Hill and the members of the Ways and Means Committee who strongly support us, MLPs came out extraordinarily well in this proposal. The natural resources provisions of section 7704 emerged virtually intact. But they did not emerge completely intact, and other types of qualifying income, some of which have importance even to natural resource MLPs, would be jettisoned under the Camp proposal. Clearly we have done a good job of making the case for energy MLPs. Now we will have to do some thinking about the best way to show the value and necessity of those who would be excluded.

In the next few months the action in tax reform, what there is of it, will move to the Senate side. Our next challenge will be to make our case to the new Finance Committee Chairman, Ron Wyden, who is both a tax reformer and less inclined to traditional energy industries than former Chairman Baucus, and to the new majority staff. The midterm elections will be another important to watch, deciding whether in 2015 we will be making our case to Chairman Hatch rather than to Chairman Wyden.

Also holding our attention for another year is the MLP Parity Act, which by extending section 7704 to alternative energy offers the tantalizing possibility of gaining a new base of support and strengthening our place in the tax code, but also presents some concerns in a Congress which, especially on the House side, is not particularly anxious to subsidize alternative energy. While the bill continues to pick up cosponsors, its sponsors have not yet succeeded in moving it forward. NAPTP continues to remain neutral on this legislation, but we have had cordial communications with its sponsor, Senator Coons, and will continue to monitor and evaluate its progress. The Wyden chairmanship could prove an interesting factor in this area as well.

The final continuing trend I would note is the growth of the MLP Investor Conference. This event has experienced a rapid increase in popularity over the past few years, parallel to that experienced by MLPs, and the Association has been scrambling to keep up. Finding space with enough hotel rooms and sufficient meeting space for one-on-ones has been a continuing challenge The growth moderated a bit this year, with total attendance rising from 927 to 945, most of it accounted for by the growth in presenting MLPs; however the challenges continue.

This year, as you know, we tried an experiment, moving the conference from the New York metropolitan area where it has been most years since it began in 2002 to a golf resort in Florida. The experiment was a success, but only partially so. Our concern that people might not follow us to Florida was unfounded; most people liked the change. However, the hotel room issue continued, as rooms at the conference hotel sold out even before registration began. We are in the process of evaluating possible sites for next year and welcome your input.

Finally, I would like to note the departure from our Board of Directors of two longtime members, Chris Buckalew of PricewaterhouseCoopers and Pat Diamond of Plains All American Pipeline. Chris, who was in on the beginning of the MLP phenomenon and was one of the people who went through the MLP battles of the 1980s with me, is headed for a well-deserved retirement. Pat has left Plains to pursue other opportunities, and I'm sure we'll be hearing more from him.

As always, I have enjoyed working with everyone in the Association over the past year and look forward to another year of getting to know you and your companies better, working to make the Association stronger, and meeting whatever challenges that arise for MLPs.