UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Composition of Proxy Groups	)	
for Determining Gas and	)	**Docket No. PL07-2-000**
Oil Pipeline Return on Equity	)	

ADDITIONAL COMMENTS OF THE NATIONAL ASSOCIATION OF PUBLICLY TRADED PARTNERSHIPS

I. SUMMARY OF POSITION

The National Association of Publicly Traded Partnerships (NAPTP) recommends:

(A) That the Commission apply the DCF model to the MLP as a whole rather than focus solely on the limited partners, thereby capturing the yield and the growth of *all* of the equity holders in the MLP-- namely the limited partners and the general partner-- in order to allow, appropriately and accurately, for a return on equity that takes into consideration all of such equity holders in the MLP; and

(B) With respect to the growth rate for purposes of this DCF model, that (1) the short term growth rate for MLPs be based on the five-year compound annual growth rate ("CAGR") of distributions to all of the equity holders (namely the limited partners and the general partner) in the MLP; and (2) the long term growth rate for MLPs be at least the projected growth in the U.S. Gross Domestic Product ("GDP"), the long term growth rate currently used for C-corporations.

II. INTEREST OF NAPTP

NAPTP is an incorporated trade association established under section 501(c)(6) of the Internal Revenue Code to represent the interests of publicly traded partnerships (i.e., MLPs) and those who work with them. Its membership currently includes 66 MLPs, of which 38 own and operate natural gas, crude oil, or refined product pipelines.[1] Of these MLPs, 24 receive some portion of their revenue from FERC-regulated pipelines.[2] We estimate that in aggregate, the 39 pipeline MLPs own over 200,000 miles of gathering and transmission pipelines, including a substantial portion of interstate crude oil, natural gas, and products pipelines. NAPTP thus has the broadest and most direct interest of any likely commentator in the inclusion of MLPs in proxy groups for oil and gas pipelines.

III. COMMENTS

A. Background and Summary

On November 12, 2007, the Commission issued a Notice of Technical Conference and Request for Comments ("Notice"). In the Notice, the Commission stated that while it believed it had received adequate information in earlier comments to resolve most of the issues raised in its initial request for comments,[3] it found the record to be inadequate for it to decide how to forecast how an MLP's growth should be projected for purposes of the DCF analysis. The notice requested comments on this issue and announced a staff-led Technical Conference to discuss the issue, to be held on January 23, 2008.

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[1] This figure does not include seven general partners of pipeline MLPs which are themselves MLPs. A 39th pipeline MLP, El Paso Pipeline Partners, L.P., recently came on the market but is not currently an NAPTP member.

[2] Not including four GP MLPs. El Paso Pipeline Partners brings the total to 25.

[3] Proposed Policy Statement, Docket No. PL07-2-000, July 19, 2005.

B. The MLP as a Whole - All of the Equity Interest Holders, Including the General Partner, Should be Considered in Growth Projections

As discussed in our previous submissions, it is essential not to focus on the publicly traded limited partner units alone when considering the DCF formula and the resulting return on equity. An MLP's general partner, like its limited partners, is an equity interest holder in the MLP; consequently, the only accurate and appropriate way to calculate the required return on equity for an MLP is to look at the MLP as a whole, taking all of these equity interest holders into consideration.

MLPs' distributable cash flow is paid out not solely to the limited partner equity holders but also to the general partner equity holder. While increasing amounts of the cash flow generated by the MLP as a whole are paid to the general partner equity interest holder through the incentive distribution rights (IDRs) that are attached to the general partner equity interest (all as set forth in the limited partnership agreements that are filed with the Securities Exchange Commission for all investors to review), the cash flow that the MLP generates as a whole does not change as a result of such agreement. In other words, while there is no secret as to how the cash generated by the MLP as a whole is divided up (per the limited partnership agreement), if the cash flow that is paid to the general partner equity interest is not taken into consideration in the DCF/return on equity model or in calculating the cost of equity, then all of the equity investors in the MLP are not taken into consideration. By contrast, in determining the return for a C-corporation, all of the equity holders (namely the common stock holders) are taken into consideration in the DCF/return on equity model.

Said another way, for a C-corporation, if you add up the cost of debt plus the cost of the common equity and weight each based on its percentage in the capital structure, you will get the

appropriate return for the pipeline. For an MLP, if you add up the cost of debt plus the cost of equity and weight each based on its percentage in the capital structure, but in doing so only take into consideration the cost of equity of the limited partner equity holders, you will get a return that is less than that of the same pipeline in a C-corporation, and consequently, not an appropriate return for the entire pipeline.

Further, an MLP's return on equity must be sufficient to cover the return expected not only by the limited partners, but also by the general partner (including its IDRs). Because of IDRs, the growth rate of the limited partner interest will always be lower than that of the entire MLP (which includes the general partner equity interest (including its IDRs) and the limited partners' equity interests), and the Commission will need to set the return on equity high enough to cover both.

At the end of the day, a pipeline should have the same risk profile, opportunity to earn returns for its equity holders, and growth potential (capital investment aside), whether it is held in an MLP or a C-corporation. This necessitates the use of an entity-based perspective when determining the appropriate return on equity.

C. Historical MLP Growth Rates

As will be discussed below in section III.D.1, the most easily observable measure of growth for an MLP is the rate at which the limited partner distributions per unit are growing. These distributions grow as the entity as a whole grows. Figures 1 and 2 below show average distribution growth rates for three periods for the MLPs owning FERC-regulated assets, and the long term distribution histories of six pipeline MLPs, respectively (a complete distribution history for each of the MLPs with FERC-regulated assets is provided in Appendix A). As would

be expected, the shortest-term growth rates[4] are the highest, averaging 11%, although with considerable variability among the individual MLPs. The five- and ten-year averages are 7.5% and 8.5%, respectively. These charts show that MLPs do generate stable and growing cash flows over the long term. It is evident that distribution growth is affected by factors other than the number of years the MLP has been in operation and that it should not be taken for granted that long term growth will be at a low rate.

It is important to keep in mind that limited partner distributions are relevant only to show that MLPs generate stable and consistent cash flows, and do not reflect the cost of equity of the MLP as a whole. The cost of equity for the MLP as a whole will be higher than the limited partners' cost of equity. As can be seen from Figure 2, even the oldest MLPs are sustaining a reasonable distribution growth, and in some cases have increased distributions at a higher rate in recent years than in earlier periods.

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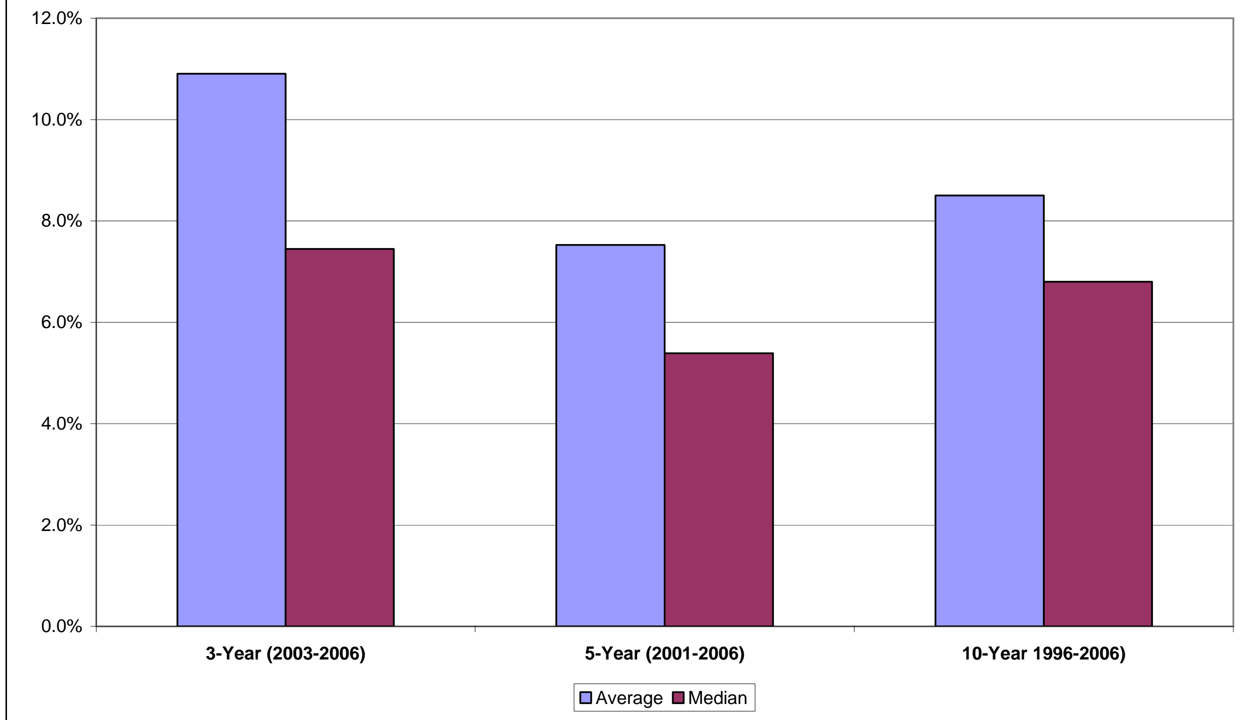
[4] The rate measured is the compound annual growth rate (CAGR).



Source: Wachovia Securities LLC and Goldman Sachs

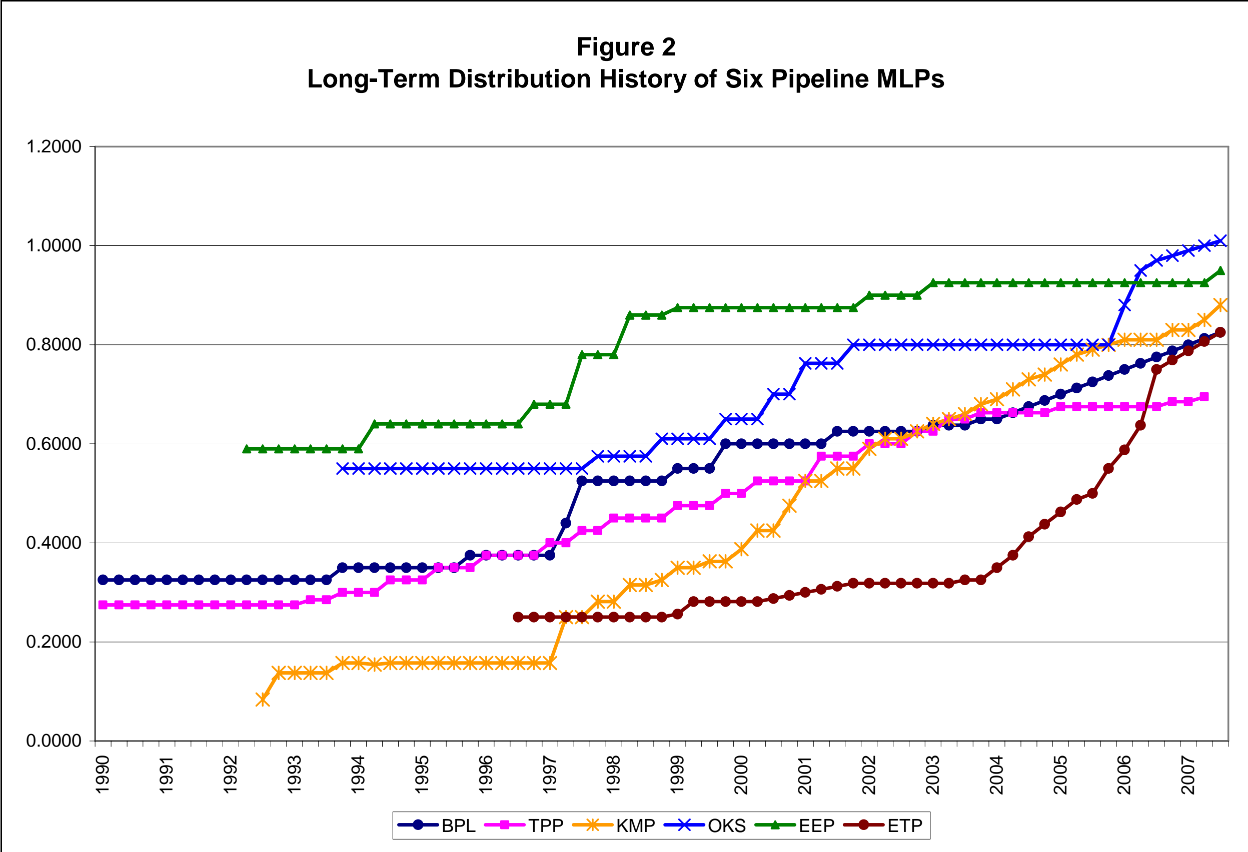


Figure 2
Long-Term Distribution History of Six Pipeline MLPs

Source: Company reports.

D. Short- and Long-Term Growth Rates

1. Short-Term Growth Projection

The Commission projects short-term growth for C-corporations by using the five-year forecasts of corporate earnings published by the Institutional Brokers Estimate System (IBES). For MLPs, the most analogous measurement of short-term growth would be analysts' forecasts of growth in the MLP's distributable cash flow (for all of its equity holders). Distributable cash flow is generally defined as --

  Net income
\+ Depreciation, depletion & amortization
\- Maintenance capital expenditures

While distributable cash flow is a widely understood concept among those who work with and analyze MLPs, it is not a standard financial measurement that is reported to services such as First Call and Bloomberg and utilized in IBES projections.

In the case of the MLP, the commonly reported measurement is the cash distribution to limited partners per unit (which is the distributable cash flow as defined above less the distribution to the general partner equity interest, divided by the outstanding limited partner units). These limited partner distributions per unit can be obtained through IBES/First Call and Bloomberg, where they are reported in the "dividends per share" column. To provide the Commission with an example of this information, we downloaded the Bloomberg distribution projections for several MLPs in NAPTP which receive a substantial part of their revenue from FERC-regulated natural gas pipelines, as shown in Table 1 below.

Table 1
Projected Five-Year Distribution Growth for Six MLPs with Regulated Natural Gas Pipelines

	Estimated Cash Distribution Per Unit						5-Year Growth Rate (1)
	2007	2008	2009	2010	2011	2012	
Boardwalk Pipeline Partners, L.P	1.798	2.127	2.462	2.590	2.725	2.730	8.71%
Enbridge Energy Partners, L.P.	3.742	3.903	4.084	4.383	4.885	5.020	6.05%
Energy Transfer Partners, L.P.	3.207	3.499	3.914	3.983	4.415	4.655	7.74%
Enterprise Products Partners, L.P.	1.931	2.079	2.243	2.330	2.475	2.480	5.13%
Kinder Morgan Energy Partners, L.P.	3.456	3.793	3.963	4.295	4.560	4.700	6.34%
ONEOK Partners, L.P.	4.012	4.368	4.675	4.910	5.150	5.110	4.96%
Spectra Energy Partners, L.P.	1.203	1.365	1.643	1.960	2.125	2.265	13.49%
TC Pipelines, L.P.(2)	2.615	2.753	2.873	2.800	2.800	N/A	9.74%
Williams Partners L.P.	2.153	2.579	2.860	2.975	3.100	3.330	9.11%

(1) Compounded Annual Growth Rate.
(2) Four-year growth rate; fifth year projection not available.

Sources: Bloomberg, Raymond James

Having obtained the limited partner distribution per unit, one then needs to take the general partner equity interest into consideration to get a metric for MLPs comparable to a C-corporation's earnings per share. Using the limited partner distribution per unit, it is necessary to "gross up" the limited partner return for the distribution to the general partner interest to obtain the entity level return on equity. The only additional information that needs to be obtained to perform the "gross-up" is the percentage of cash flow that goes to the general partner interest (including its IDR). Typically, most of the information to make this calculation is found on the face of an MLP's income statement and is calculated as follows:

General Partner distribution
÷
[(Limited Partner distribution x Limited Partner units outstanding)
+
General Partner distribution]

The relatively simple calculation is reflected in the following chart.

Table 2
Return on Equity Calculation Including General Partner Interest

	2007	2008	2009	2010	2011	2012
Limited Partners' Distribution	$ 1.00	$ 1.05	$ 1.10	$ 1.16	$ 1.22	$ 1.28
5-Year LP CAGR	5.0%					
Percent of Cash Flow to GP	15%					
MLP Growth Rate	5.9%					

2. Long-Term Growth Projection

The next issue raised by the Commission is whether its current methodology for projecting long-term growth, which is based on forecasts of the growth in Gross Domestic Product (GDP), "adequately reflects the lower growth potential of MLPs, particularly over the long term."

The NAPTP believes that the long term growth rate for an MLP could and more likely should be higher than GDP. As reflected elsewhere in this submission, the 10-year growth rate for MLPs is well above GDP. While it is true that the rapid distribution growth of an MLP's early years may not continue indefinitely, as demonstrated in Section C, pipeline MLPs are entirely capable of sustaining distribution growth over the long term—as long as two decades in the case of Buckeye Partners.

At a minimum, the NAPTP believes that the long term growth rate of an MLP should be at least the GDP growth rate. Consistent with the Commission's current policy for pipeline assets held in a C-corporation, for the base business of midstream pipeline assets (assuming no growth opportunities), GDP is the correct metric for long term growth. Whether those pipeline assets are held in an MLP or a C-corporation should have no impact. As stated earlier in this submission, a pipeline asset should have the same risk profile, the same opportunity to earn a return, and the same opportunity for growth (capital investment aside) whether in an MLP or a C-corporation. The overall risk of the assets should be the same regardless of the legal entity in which it is held.

Notwithstanding the Commission's current policy, the NAPTP believes that the long term growth rate for pipeline assets in a C-corporation should be higher than GDP *even when no growth opportunities at the C-corporation exist*. The analysis boils down to what the entity which owns the pipeline asset does with the excess cash remaining after all expenses have been paid, assuming no growth opportunities (that is, expansion capital opportunities). The MLP will distribute all of its cash and should, consistent with the Commission's policy set forth above, grow in the long run at least at the GDP growth rate. The C-corporation, on the other hand, can either repurchase shares, pay down debt, or increase its dividend. The repurchase of shares or

pay down in debt would increase its earnings growth rate above GDP. An increase in its dividend would increase the C-corporation s current yield, with a similar impact on its overall return on equity.

For these reasons, NAPTP does not agree that the current long-term growth formula based on GDP should be adjusted downwards. In fact, is important to recognize that utilizing GDP growth for the MLP as a whole results in growth that is lower than GDP for the limited partners.

Table 3 below performs a DCF calculation for certain pipeline MLPs using projected limited partner distribution growth as reported to IBES/First Call/Bloomberg for the short-term component and an estimate for GDP of 4.0% for the long-term component. The limited partner distribution growth per unit and the yield were adjusted for the general partner participation to calculate an overall MLP entity based return on equity. This produced DCF returns with an average of 14.0% and a median of 12.7%, which NAPTP considers to be within the range of acceptable returns.

Table 3 DCF Calculation for Nine MLPs Using Entity Return on Equity								
	(A)	(B)	(C)	(D) = B / (1-C)	(E)	(F) = (1/3 *E) + (2/3*D)	(G) = A / (1-C)	F + G
Corporate Pipeline Group	**6-Month Dividend Yield**	**LP 5-Year Growth Rate**	**Percent of Cash Flow to GP**	**Entity Growth**	**GDP**	**Combined 2/3-1/3 Growth Rate**	**Entity Yield**	**Entity Return on Equity**
Boardwalk Pipeline Partners, L.P.	5.4%	8.7%	2.0%	8.9%	4.0%	7.3%	5.5%	12.7%
Enbridge Energy Partners, L.P.	7.1%	6.1%	10.0%	6.7%	4.0%	5.8%	7.9%	13.7%
Energy Transfer Partners, L.P.	6.1%	7.7%	30.0%	11.1%	4.0%	8.7%	8.7%	17.4%
Enterprise Products Partners, L.P.	6.3%	5.1%	12.0%	5.8%	4.0%	5.2%	7.1%	12.3%
Kinder Morgan Energy Partners, L.P.	6.6%	6.3%	43.0%	11.1%	4.0%	8.7%	11.6%	20.4%
ONEOK Partners, L.P.	6.2%	5.0%	12.0%	5.6%	4.0%	5.1%	7.1%	12.2%
Spectra Energy Partners	4.4%	13.5%	0.0%	13.5%	4.0%	10.3%	4.4%	14.8%
TC Pipelines, L.P.	7.0%	1.7%	7.0%	1.8%	4.0%	2.6%	7.5%	10.1%
Williams Partners L.P.	4.8%	9.1%	4.0%	9.5%	4.0%	7.7%	5.0%	12.6%
						Average		**14.0%**
						Median		**12.7%**
Source: Company reports								

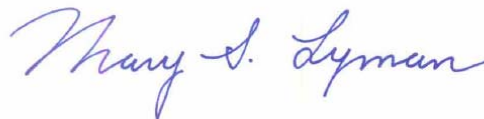
E. Recommended Panel for Technical Conference

NAPTP would like to propose for the technical conference a panel that would consist of two of its members – an industry representative and a knowledgeable analyst--plus an economist or other academician with knowledge of the industry. We propose that Park Shaper, President of Kinder Morgan Management (NYSE:KMR) and Kinder Morgan G.P., Inc., the general partner of Kinder Morgan Energy Partners, L.P., serve as the industry representative and Yves Siegel of Wachovia Capital Markets LLC serve as the analyst; and we believe that Michael Vilbert would be a good candidate for the third spot.

IV. Conclusion

NAPTP recommends that the Commission change its current methodology for the DCF calculation when MLPs serve as proxies, by looking at the yield and growth rate of the MLP as a whole rather than just looking at the yield and growth rate of the limited partner units. Only by looking at the MLP as a whole can one accurately take all of the equity holders (limited partners and the general partner) into consideration in the calculation. This compares to looking at the yield and growth rate of common shares of a C-corporation, where it is possible to look solely at of the common shares because the common equity is the only form of equity. Making a change to project a lower growth rate for MLPs than is projected for corporations would not be appropriate given the demonstrated ability of MLPs to sustain distribution growth over the long term and the need to ensure that projected growth rates, and the calculated ROE, are sufficient to provide all MLP equity holders with an adequate ROE.

Respectfully submitted,



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APPENDIX A

Annual Distribution History of Pipeline MLPs with FERC-Regulated Assets

Year	APL	BWP	BPL	DPM	DEP	EPB	EEP[5]	EPD	ETP[6]	GEL	HEP	KMP[7]	MMP[8]
1987			1.100										
1988			1.150										
1989			1.250										
1990			1.300										
1991			1.300										
1992			1.300				1.770(3)					0.221(2)	
1993			1.325				2.360					0.570	
1994			1.400				2.510					0.627	
1995			1.425				3.525					0.630	
1996			1.500				2.640		0.500(2)			0.630	
1997			1.865				3.020		1.000			0.939	
1998			2.100				3.440	4.500(2)	1.000	2.000		1.236	
1999			2.250				3.500	0.925	1.100	2.000		1.425	
2000			2.400				3.500	1.050	1.144	2.000		1.713	
2001			2.475				3.525	1.194	1.238	0.800		2.150	1.128
2002			2.500				3.625	1.360	1.275	0.000		2.435	1.356
2003	2.385	0.000	2.563				3.700	1.453	1.288	0.150		2.630	1.585
2004	2.670	0.000	2.675				3.700	1.540	1.575	0.600	1.000 (2)	2.870	1.761
2005	3.160	0.350	2.875	0.350			3.700	1.698	2.000	0.610	2.350	3.130	2.061
2006	3.400	1.555	3.075	1.565			3.700	1.825	2.744	0.740	2.635	3.260	2.335
Q1-Q3 2007	2.640	1.320	2.438	1.545	1.210		2.800	1.448	2.419	0.720	2.110	2.560	1.890

(1) Distributions paid in only one quarter
(2) Distributions paid in only two quarters
(3) Distributions paid in only three quarters

Source: Goldman Sachs; distribution histories on company websites; company reports

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[5] Enbridge Energy Partners (EEP) traded as Lakehead Pipe Line Partners (LHP) until September 5, 2001.
[6] Energy Transfer Partners (ETP) traded as Heritage Propane Partners (HPG) until March 1, 2004, following Heritage's merger with LaGrange Energy. Before the merger, Heritage was a propane MLP with no pipeline operations.
[7] Kinder Morgan Energy Partners (KMP) traded as Enron Liquids Pipeline Partners (ENP) until its general partner was purchased by Kinder Morgan, Inc. on February 14, 1997.
[8] Magellan Midstream Partners (MMP) traded as Williams Energy Partners (WEG) until September 1, 2003.

Year	MWE	NS[9]	OKS[10]	PAA	RGNC	SGLP	SEM	SXL	TCLP	TPP	TLP	WPZ
1990										0.901		
1991										0.110		
1992										0.110		
1993			$0.550[3]							1.120		
1994			2.200							1.225		
1995			2.200							1.350		
1996			2.200							1.475		
1997			2.225							1.600		
1998			2.335	0.450[1]						1.775		
1999			2.480	1.844					1.350[3]	1.875		
2000			2.700	1.838					1.850	2.050		
2001		1.200[2]	3.088	2.000					1.975	2.200		
2002	0.760[3]	2.750	3.200	2.138				1.838	2.075	2.375		
2003	1.235	2.950	3.200	2.213				2.083	2.175	2.550		
2004	1.485	3.200	3.200	2.353				2.395	2.275	2.650		
2005	1.6200	3.3650	3.2000	2.6500				2.6500	2.3000	2.688	1.2000[3]	0.7000[3]
2006	1.8800	3.6000	3.7800	2.9825	1.4400			3.1250	2.3500	2.700	1.7200	1.7250
Q1-Q3 2007	1.5900	2.8500	3.0000	2.4825	1.1500	0.3125[1]	0.3000[1]	2.5125	1.9650	2.065	1.4700	1.5750

(1) Distribution paid in only one quarter
(2) Distributions paid in only two quarters
(3) Distributions paid in only three quarters

Source: Goldman Sachs; distribution histories on company websites; company reports

[9] NuStar Energy, L.P. (NS) began trading as Shamrock Logistics, L.P. (UDL). On January 1, 2002 , following its acquisition by Valero Energy Corp., its name was changed to Valero, L.P. (VLI). The partnership separated from Valero and became NuStar Energy on April 1, 2007.
[10] ONEOK Partners traded as Northern Border Partners (NBP) until May 22, 2006, when its name was changed following its acquisition by ONEOK, Inc.