REPORT OF THE EXECUTIVE DIRECTOR

In last year's Executive Director Report, I reminded people that it was the 25th anniversary of both section 7704, the section of the Internal Revenue Code on which MLPs depend for their existence, and the beginning of this organization's existence as an incorporated trade association under the name "Coalition of Publicly Traded Partnerships." This year marks another anniversary: thirty years ago, the staff of the Senate Finance Committee issued a report on corporate tax reform that recommended imposing corporate tax on publicly traded partnerships, then a phenomenon that was barely two years old and numbered fewer than a dozen partnerships.

In response, Apache Oil, working through its lobbying firm, formed a lobbying coalition comprised of MLPs, law firms, accounting firms, and investment banks, which was called the Coalition of Publicly Traded Limited Partnerships." The Coalition was managed by my former employer, Letitia Chambers; and when I joined her firm at the beginning of 1985, it was my first client. That ad hoc lobbying group worked for the next few years, sharing costs on an equal basis, to fight the corporate taxation threat. Then in 1987 the question was settled, we became an association, and launched our first investor relations effort to inform people that Congress had not done away with all MLPs. And after a few lean years when the older PTPs were going away and the midstream revolution had not yet taken old, we've been growing ever since.

The year since the last Annual Meeting has been another period of growth in all of the Association's endeavors. Membership has once again grown substantially, from 119 members as of last year's meeting to 137 members today (assuming everyone who has not yet paid their dues does so). Moreover, our membership is increasingly diverse. For several years the growth in diversity came from the influx of new kinds of non-MLP members. Lately, we have seen increasing diversity among the MLP members as new types of natural resource MLPs are created and join the Association. Today, while midstream MLPs still predominate, there are a growing number of members from the upstream and downstream ends of the energy chain, as well as MLPs involved with other natural resources. This diversity can present a challenge when differing industry segments have differing interest, but it also makes us stronger.

We have experienced significant financial growth as well. For the first time this year, our revenues have crossed the $2 million threshold and our current assets are close to $3 million now that most dues and conference revenues have been collected. This does not just mean that we are successful; it means that whatever challenges may come our way from Congress or in the states, we have the resources to meet them.

In addition, we have responded to the increasing prominence of MLPs in the media and among investors by increasing our capabilities in this area as well. The dormant Public and Investor Relations Committee has been revived to provide structure and guidance to these efforts. And most importantly, we have retained a public affairs firm, Story Partners, so that we may have professional assistance in dealing with the media, developing our advocacy and investor relations material, and getting information about the economic and financial benefits of MLPs out to the press and to policy makers. They have already made my life easier by fielding reporters' calls and have been important contributors to our federal advocacy efforts; hopefully their efforts will soon be apparent to all Association members as well.

The biggest challenge faced by the Association, as it was thirty years ago, continues to be Congress' ongoing effort to enact tax reform. This effort has been underway for a few years now, and most observers believe that it is unlikely to be concluded this year. As long as MLPs continue to be classified as a "tax expenditure" rather than simply the most efficient structure for businesses in certain industries, the prospect of tax reform will mean that we must be on the alert and ready to make our case. Thanks to the efforts of NAPTP's Washington representatives and those of some of our member companies, we have made a great deal of progress in doing that.

While it's not good to be overconfident in a tax reform process in which "everything is on the table," we know that there is a solid core support among the Ways and Means Committee majority for keeping MLPs in the tax code. On the Senate side, there appears to be little interest in doing away with MLPs but a fair amount of interest in allowing alternative energy projects to use them. While NAPTP is remaining neutral on the "MLP Parity Act," as we do not have sufficient expertise to know whether MLPs will work as well for alternative energy as they have for traditional forms, we must be heartened by the positive attention that that the efforts of its advocates have brought to the benefits of the MLP structure.

In any case, as long as people in Congress are talking about tax reform, NAPTP and its representatives will be there to make sure they realize that MLPs are a part of the tax code that actually works and contributes far more to the economy than is theoretically lost by not taxing their income twice.

And of course, NAPTP will also be there whenever a state threatens to impose unfair tax provisions on MLPs or their unitholders. Thanks to the efforts of Lindsay Sander, George Scott Christian, and a number of NAPTP members, we were able to win a change in the Texas margin tax that will make a big difference to many of our members. Along with that, Lindsay has somehow found time to put out fires in California, Montana, Louisiana and various other places.

I look forward to another year of growth, change, and success for both the Association and the MLP community as a whole. Thank you to all our members for your parts in bringing us to where we are today.