REPORT OF THE EXECUTIVE DIRECTOR

We tend to forget, particularly when times are good, that things go in cycles. One party controls the White House or Congress, and then the other one takes over. The market goes up, and then it goes down. Oil prices rise and then they fall. You're hot and then you're not.

It has been a difficult year or so for the MLP community as it hit less favorable cycles in several areas at once. After several years of being the hot product in the financial markets, with rapid growth both in the number of MLPs and in the value of each MLP, MLPs have found themselves in a very different environment. And after years of the MLP structure drawing little attention from Congress and regulators, with the only cloud on the horizon being the ever-present yet ever-remote possibility of tax reform, MLPs face potential changes in the rules governing qualifying income, in what will be required of them in the event of an audit, and possible changes in pipeline ratemaking rules.

In the markets, in 2015 and early 2016, falling energy prices put several MLPs in financial difficulty, from which they and their investors are still trying to recover, and for a while soured the market on all MLPs. IPOs of new MLPs ground to a halt. While developments in Washington have an immediate impact on MLPA, requiring us to inform our members, gather our forces, and respond, it took longer for MLPA to fully feel the impact of MLP market conditions. In 2015 attendance and revenue from the MLP Investor Conference reached all-time highs. Our rapid growth of previous years continued with 29 new members (offset by 19 departures, for a net gain of ten). Revenue continued to grow, albeit more slowly than in some previous years.

This year the changes have caught up with us. We have lost at least 19 members--"at least" because there are a few that to date have neither paid nor formally withdrawn whose membership may be terminated. Some of these departures are due to mergers, others to financial difficulties; both reflect a change in the MLP environment. While we lost a number of members in 2015, there were still more than enough MLPs coming in to take their place; not so now. There were only seven new members, not nearly enough to balance the departures.

The MLP Investor Conference also reflected the changed environment: compared to 2015 there were sixteen fewer MLPs presenting, over two hundred fewer attendees, and eleven fewer sponsors (resulting in about 25% less sponsorship money); the conference brought in 23% less revenue. Consequently, MLPA's income to date is down from this point last year and, depending on how things progress in the MLP world, could drop further next year.

At the same MLPs are facing a number of challenges in Washington. In May 2015 the IRS and Treasury issued proposed regulations on qualifying income, the lifeblood of any MLP, which differed in many respects from the MLP community's view of the law and our understanding of Congressional intent. MLPA marshalled considerable resources to respond to the proposed regulations, and while we have done a good job in making the case to the IRS and Treasury that the proposed regulations need to change, MLPs must live with uncertainty until final regulations are promulgated. If the final version of the regulations continues to be deeply flawed, legislative action might be necessary.

In addition, last year Congress enacted a new partnership audit regime that raises many questions for MLPs and also will require efforts by MLPA to ensure that the IRS' interpretation and implementation of the new rules are workable for MLPs. This effort may ultimately extend to the states as they adopt their own versions of the federal rules.

And beginning last year and continuing in 2016, the Administration has targeted "fossil fuel" MLPs for elimination in its budget as a way of funding tax reform, no doubt encouraged by MLPs' continued inclusion on the Joint Committee on Taxation's tax expenditure list. The proposal will go nowhere, but it is a continuing reminder of the fact that if tax reform ever does get serious traction, MLPs may be vulnerable.

Most recently, on July 1, 2016, a federal appeals court in *United Airlines v. FERC* reopened a FERC tax allowance policy for c0st-of-service ratemaking that had been settled for over a decade. The Association has a long history with this issue, dating back to the mid-1990s, when we first tried to persuade FERC to allow PTPs to include a tax allowance not just to the extent there are corporate partners, but for all partners.

In May 2005, after a comment period in which MLPA (then the Coalition of Publicly Traded Partnerships) and several members submitted comments supporting an income tax allowance (ITA) that reflects the liability of individual as well as corporate unitholders, FERC issued a Policy Statement on Income Tax Allowances which largely adopted the Coalition's position. The policy was upheld by the Court of Appeals in *ExxonMobil v. FERC* in 2007, and the matter appeared to be settled.

In *United Airlines*, the same federal Court of Appeals panel that decided *ExxonMobil* rejected FERC's use of an ITA in a rate case because FERC "failed to demonstrate that there is no double-recovery of taxes for partnership, as opposed to corporate, pipelines" and therefore lacked the required "reasoned basis" for allowing an ITA. Saying this was not a collateral attack on ExxonMobil because the issue was not addressed there, the Court remanded the case to FERC to consider mechanisms by which it can demonstrate that there is no double recovery if an income tax allowance is allowed. FERC has not announced how it will respond, but if it re-opens the ITA issue rather than simply providing the Court with additional justification for its policy, MLPA will need to become engaged on yet another front. We have already been asked by interested parties to provide information on how the MLP structure contributes to energy infrastructure.

We thus face a challenging situation: MLPA is dealing with a down cycle in membership and revenue at the same time it is dealing with an up cycle in legislative and regulatory activity affecting MLPs. This organization has dealt successfully with challenging situations before, however, and I am confident it will do so again.

As for the MLP market, we have survived far worse. In the late 1980s and early 1990s, thanks to new restrictions in the tax code and down cycles in both the energy and the real estate industries, the number of MLPs dropped rapidly and some people thought MLPs were gone for good. In fact our first public affairs campaign was to get the word out to investors that MLPs were still around. But things turned around, the midstream sector discovered MLPs, and eventually the industry was once again in growth mode.

Market conditions will change; in fact they appear to be changing already. Both commodity prices and MLP unit prices have increased. Many of the MLPs with financial issues are working their way through them. The interest in MLPs in the equity markets has improved enough that the first MLP IPO in over a year, Noble Midstream Partners, is happening this week. Others that have been waiting in the pipeline will eventually follow. We may not reach the peak of activity that we saw in 2014, at least not soon, but MLPs that are solidly structured and well managed will continue to come on the market and thrive and, hopefully, find their way to MLPA. Until they do we will have to keep a close eye on our revenue levels and adjust accordingly.

Whatever the level of our resources, we have always been able to meet our challenges in Washington—and in the states as well. We currently face a great deal of uncertainty about the next political phase, with both the White House and the Senate potentially changing parties. But through Republican and Democratic Administrations, and through Democratic and Republican Congresses, over the years we have been able to protect the MLP structure and make some positive changes to the tax code. We have done it by standing together as a group, with MLPs from many different industries coming together around the cause of preserving the MLP structure, and by sharing information and resources for the common good. After watching this organization do that for the past 30 years, I'm confident that we will be able to do it in the future.

I look forward to working with all of you in the coming year.