MLP & ENERGY INFRASTRUCTURE CONFERENCE

EVOLUTION OF THE MLP MODEL

THE PAST & THE FUTURE

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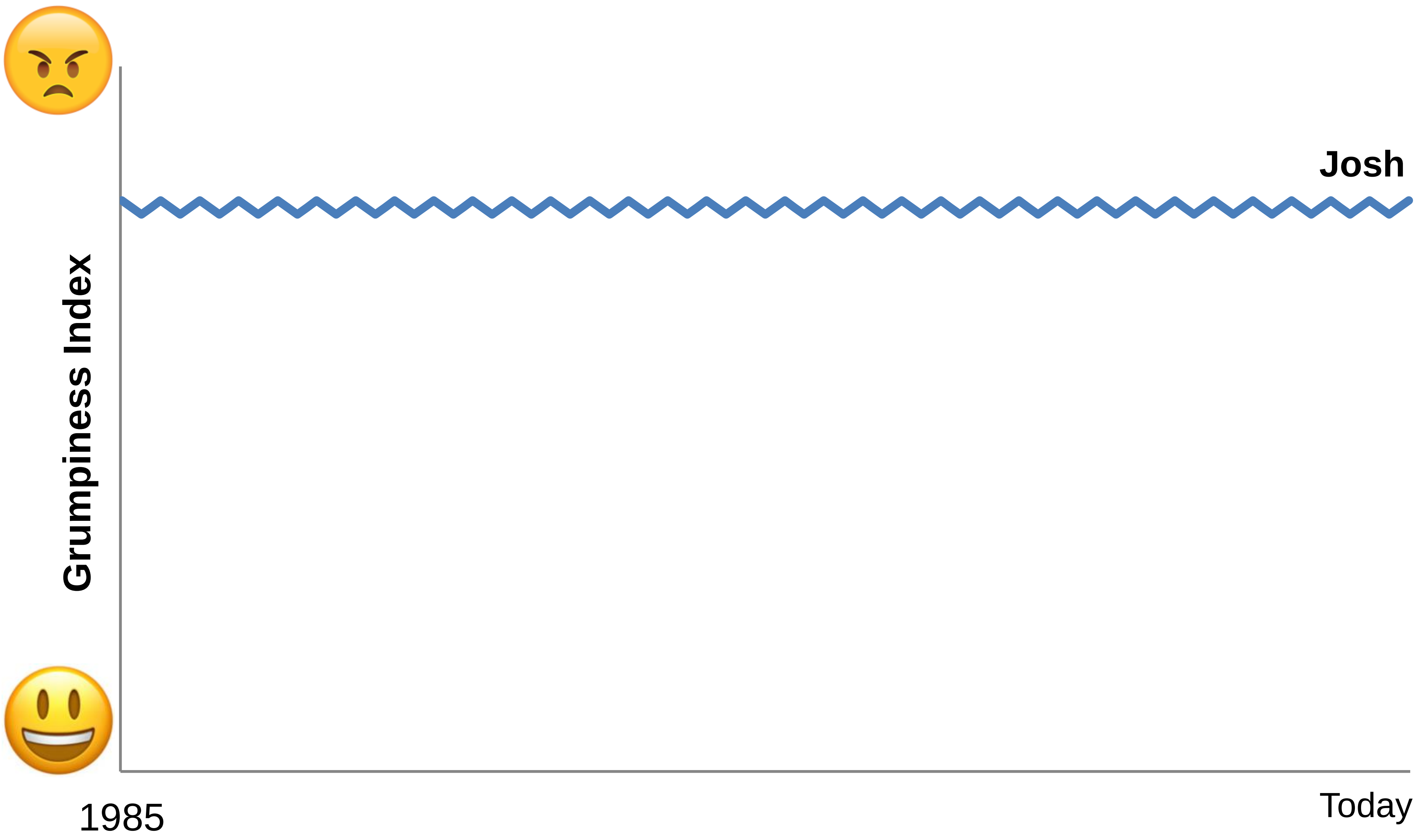
Grumpiness Index



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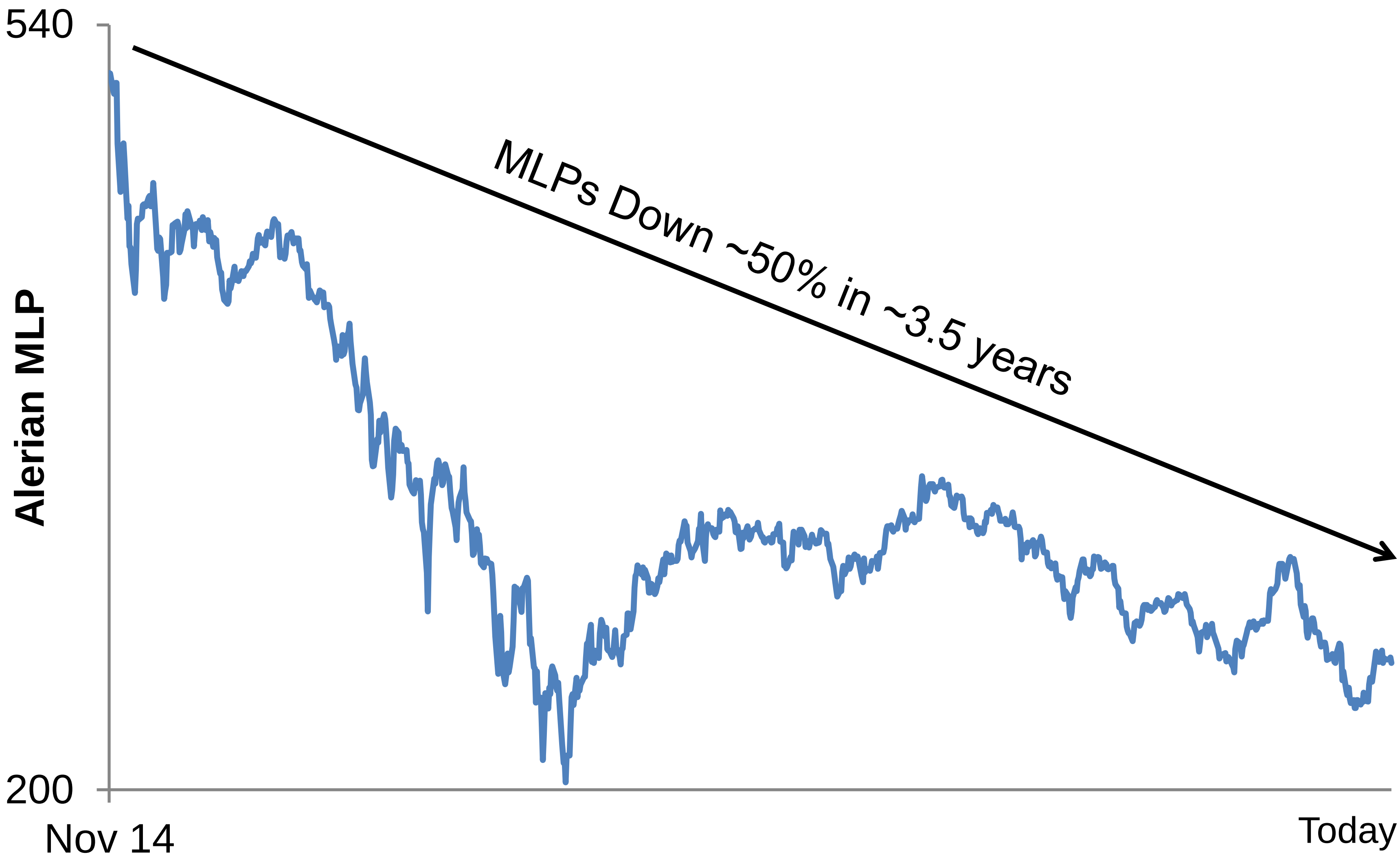

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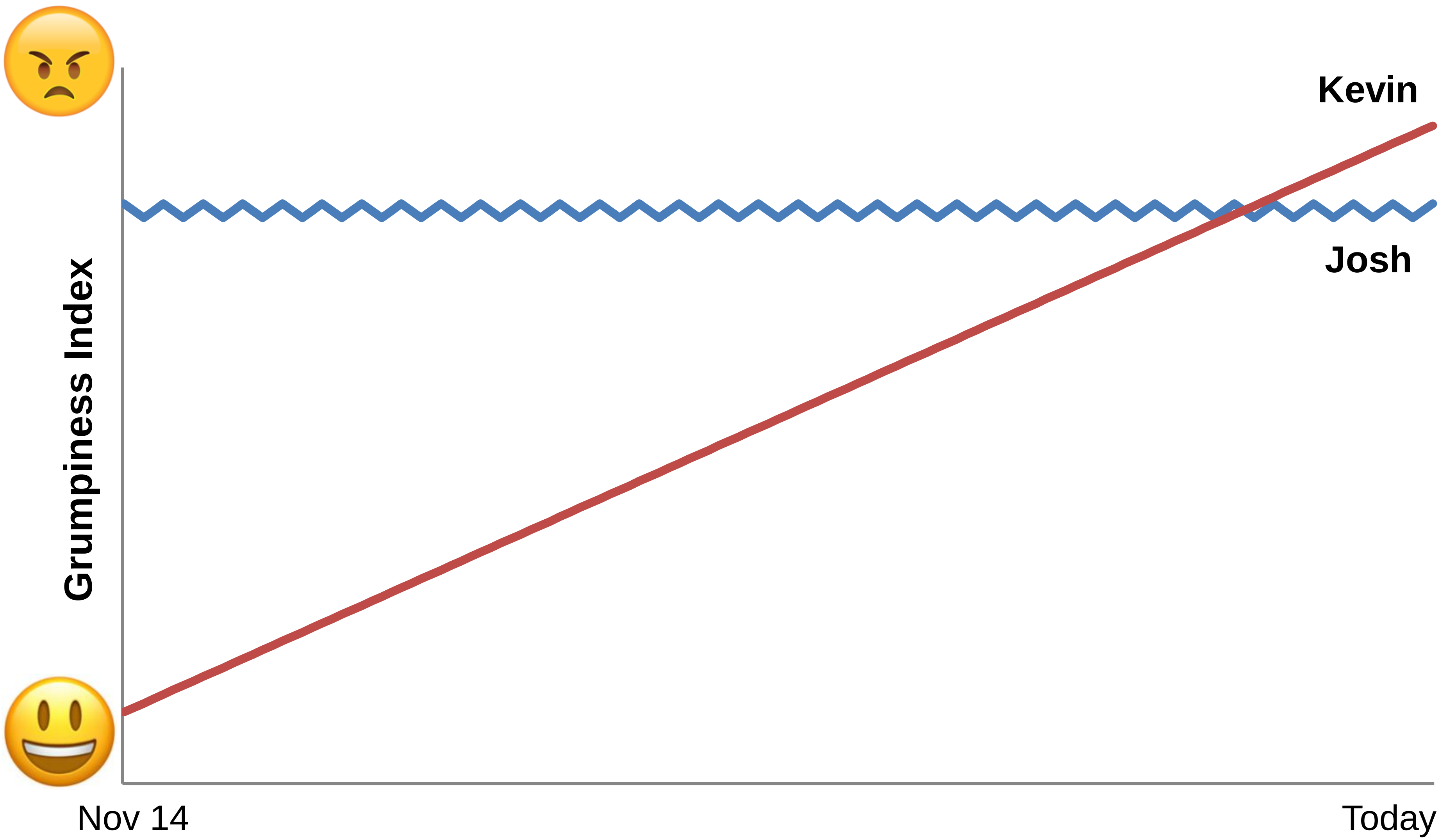


History of MLPs

Original MLP Model

- Many were roll-ups of private upstream partnerships
- Transco was the first to use a public offering to monetize assets
  - Concept quickly spread to non-energy businesses
  - By 1987, there were more than 100 MLPs
- 1987 reform taxed non-energy MLPs as corporations
  - Many remaining MLPs crashed and burned – too much commodity risk, not enough set aside for maintenance capital

1981

First Public MLP:

1983

First Underwritten MLP:

Transco Exploration Partners, Ltd.

1987

Tax Reform

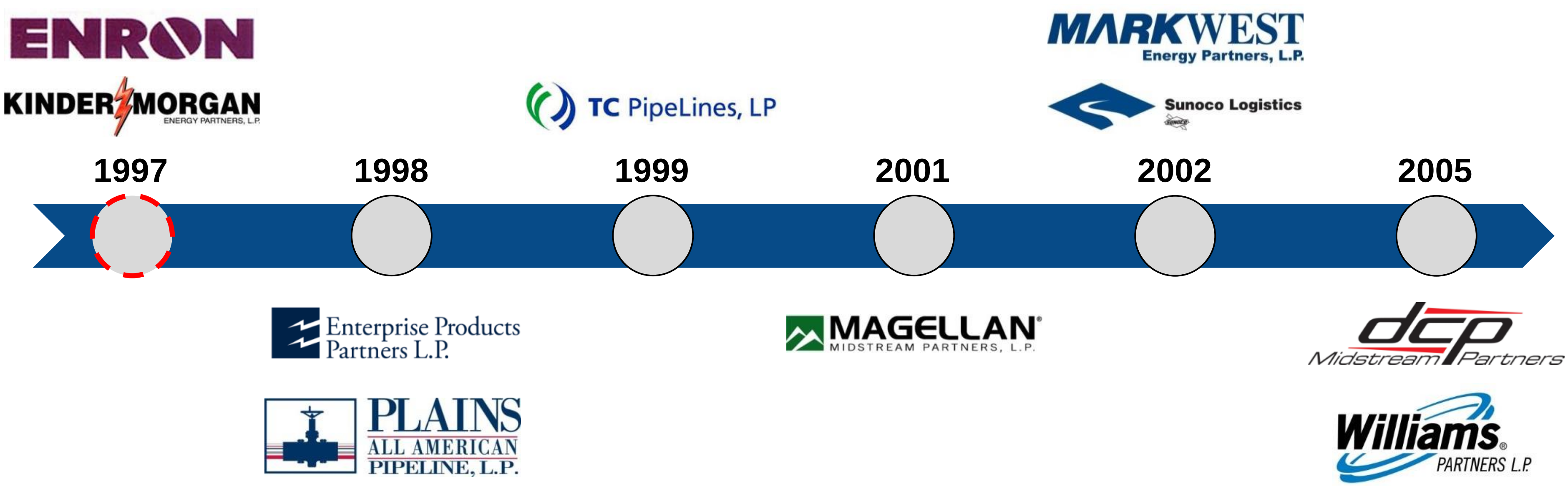
MLP Version 2.0

- Model needed to be "new and improved"
  - Limit commodity risk
  - Non-depleting assets (no upstream)
  - IDRs gave GPs incentive to grow fee-based earnings stream
  - Subordination gave LPs an "insurance policy" if things went wrong
  - External financing instilled discipline: bad deals wouldn't get financing

1986	**1988**	**1989**	**1990**	**1991**	**1993**
Buckeye Partners	Santa Fe Pacific Pipeline Partners	Kaneb Pipeline Partners	TEPPCO Partners	Lakehead Pipeline Partners	Northern Border Partners
	Acquired in 1997 by Kinder Morgan Energy Partners	*Acquired in 2004 by Valero LP*	*Acquired in 2009 by Enterprise Products Partners*	*Renamed in 2001 Enbridge Energy Partners*	*Renamed in 2006 ONEOK Partners, L.P.*

MLP Version 3.0

- After Rich Kinder and Bill Morgan took over Enron Liquids Pipeline, MLPs evolved into a growth vehicle – not just an income producing vehicle
- Growth was initially driven by acquisitions; then over time, greenfield projects became a more important driver
- MLP distribution growth averaged ~8.5% for the 10 years ended 2005



Rise of the GP IPO

- From 2004 – 2007, there were 11 GP IPOs
- Many reasons the trend gained momentum
  - Allow sponsors to monetize a growing IDR cash flow stream
  - Give investors “supercharged” exposure to the underlying MLP
  - Allow IDR owners a way to “mark to market” the value of IDRs, often owned by a public company

2004 → **2007**

What Happened Next?

- Attracted by high valuations, many types of businesses went public as MLPs

Chemicals	Refining	Compression	Saltwater Disposal	Frac Sand	Shipping

- Some businesses had greater cash flow volatility

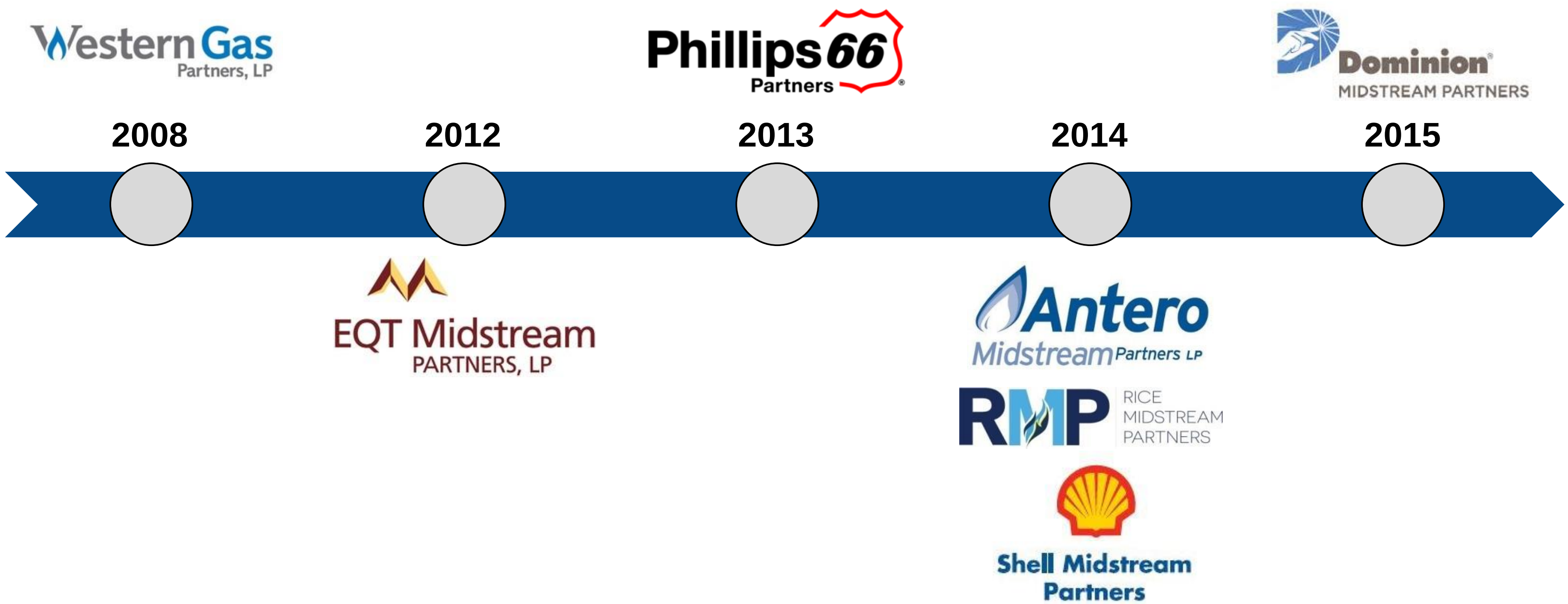
- We also tried the upstream model again

LINN Energy · BREITBURN ENERGY PARTNERS LP® · EVEP · LEGACY RESERVES · Memorial Production Partners

- Market put a premium on growth at the expense of stability

Created MLPs with Substantial Embedded Growth

- When single digit growth wasn't enough… Wall Street created the "super drops"
  - Brand name sponsors, 15-25% distribution growth projected for multiple years
- Carve outs from upstream companies contributed to this phenomenon



Hindsight is 20/20: Seeds of Trouble

- ✓ Single-asset businesses in non-traditional industries
- ✓ Variable distributions with no established MQD
- ✓ “Direct” and “indirect” commodity exposure – E&P MLPs and MLPs dependent on completion activity
- ✓ Shrinking – or zero – excess distribution coverage
- ✓ Under-reserving for maintenance capex
- ✓ Overpaying for acquisitions
- ✓ A “race” for fastest distribution growth
- ✓ G&P fees tied directly to commodity prices
- ✓ Contracted long-dated projects without permanent financing

In the Downturn, Many Distributions Were Cut

MEIC 2018

- We're now four years into a downturn that has not been good for MLPs
- 40+ distribution cuts – both "front door" and "back door" – breaking central investor tenet as a stable and high yielding investment opportunity
- Upstream MLPs have filed for bankruptcy or restructured

Front Door Cuts	Back Door Cuts
Kinder Morgan Inc.	Kinder Morgan Energy Partners, L.P. / El Paso Pipeline Partners (a Kinder Morgan company) / Kinder Morgan Inc.
Plains All American Pipeline, L.P.	Plains All American Pipeline, L.P.
Crestwood Midstream Partners LP	Williams Partners L.P.
Enbridge Energy Partners, L.P.	Rose Rock Midstream
NuStar Energy LP	Energy Transfer
Boardwalk Pipeline Partners	MarkWest Energy Partners, L.P.
Genesis Energy	Targa
NGL Energy Partners LP	Regency Energy Partners
TC PipeLines, LP	

Drop Down Stories Weren’t Untouchable

Market soured on what critics describe as “manufactured growth”:

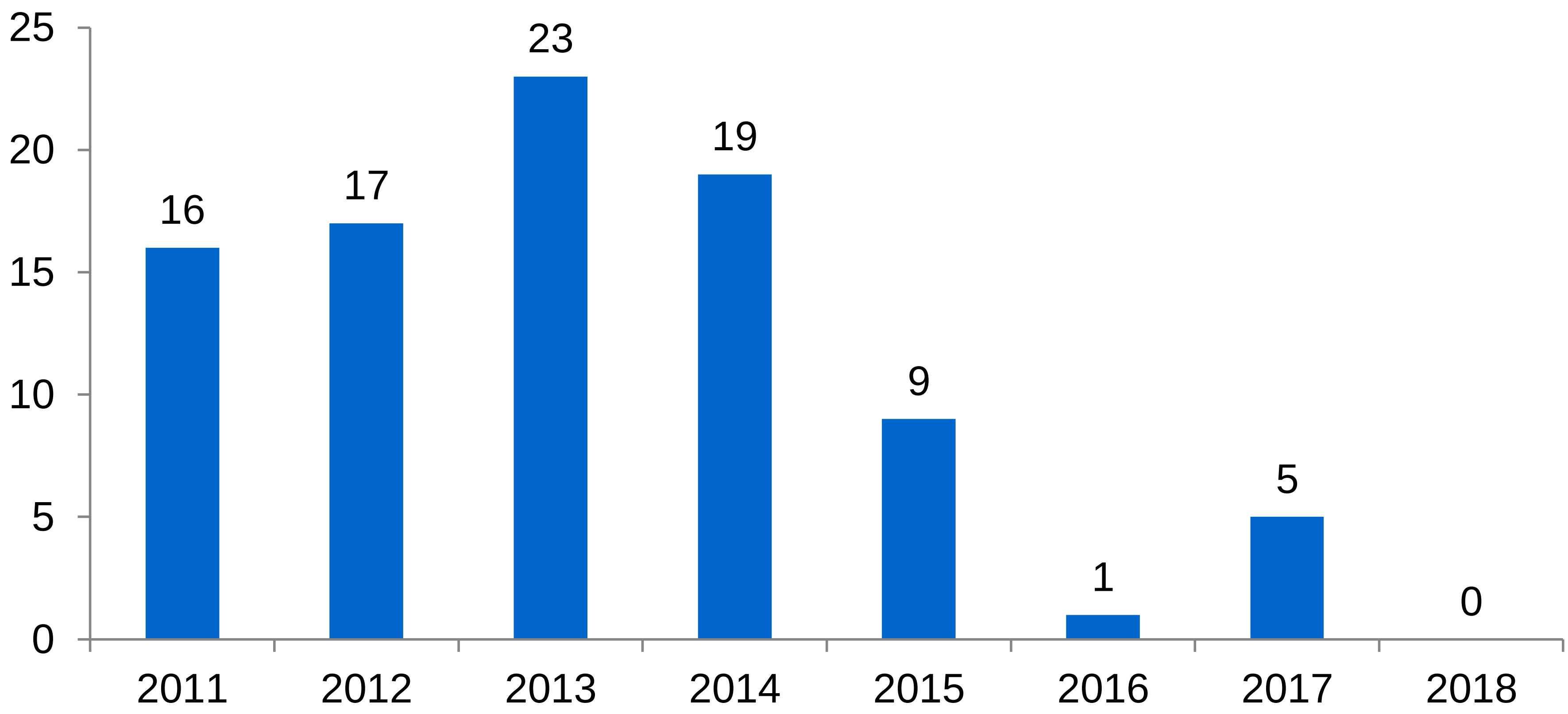
- Cost of capital “circular reference”
- Drop down prices often higher than desirable

 **6.0 – 8.0x**  **9.0 – 11.0x**

- Orphaned MLPs when the sponsor’s dowry sold
- Need for equity capital in depressed market

…and the IPO Market Stalled Out

MLP IPOs by Year



The Future of the MLP Structure

Responding to the Downturn

- Recent years have seen many restructurings and "buy-ins"
- Some MLPs were bought in by their parents
- Many MLPs have "bought in" the IDRs or merged with a C-corp

Midstream Restructuring			
Parent Buy-Ins	**C-corp Mergers**	**IDR Buy-Ins**	**In Process[1]**
MIDCOAST ENERGY PARTNERS	KINDER MORGAN ENERGY PARTNERS, L.P.	PLAINS ALL AMERICAN PIPELINE, L.P.	EQT Midstream PARTNERS, LP / RMP RICE MIDSTREAM PARTNERS
SXCP SXCPartners	TARGA	Williams PARTNERS L.P.	TALLGRASS ENERGY PARTNERS
Transocean PARTNERS LLC	ROSE ROCK Midstream	Crestwood MIDSTREAM PARTNERS LP	Antero Midstream Partners LP
PAA NATURAL GAS STORAGE	ONEOK PARTNERS	Enterprise Products Partners L.P.	

(1) Companies that have announced they are considering alternatives.

Are IDRs Really the Third Rail?

They Work

IDRs have worked – 30 years of growth

Saying Goodbye Isn't Easy

Inherent conflict of interest over value in a restructuring transaction

Over Time, IDRs Can be a Problem

With distribution growth, IDR burden increases

IDRs in Future MLP IPOs

There are many opinions on how to change the IDR structure for future IPOs

Governance is at Center of Debate

	Corp	MLP
Board comprised of a majority of independent directors	✓	✗
Independent compensation committee	✓	✗
Independent nominating/governance committees	✓	✗
Shareholder vote required to issue 20% of shares outstanding	✓	✗
Shareholder vote required to issue >1% of shares to affiliate	✓	✗
Subject to fiduciary duties of care and loyalty	✓	✗
Voting rights for holders/groups who own >20%	✓	✗

Only 9 of 50+ midstream MLP boards are majority "independent"

Only 2 of 50+ midstream MLPs allow LPs to elect directors

Does Converting to a C-Corp Solve the Issues?

FERC related issues

- FERC revised longstanding policy regarding income tax allowance in cost of service rates; C-corps not subjected to this

Broader access to capital markets

- Some institutional investors cannot own MLPs
- Deal size can be much larger for C-corps

Tax Cuts and Jobs Act

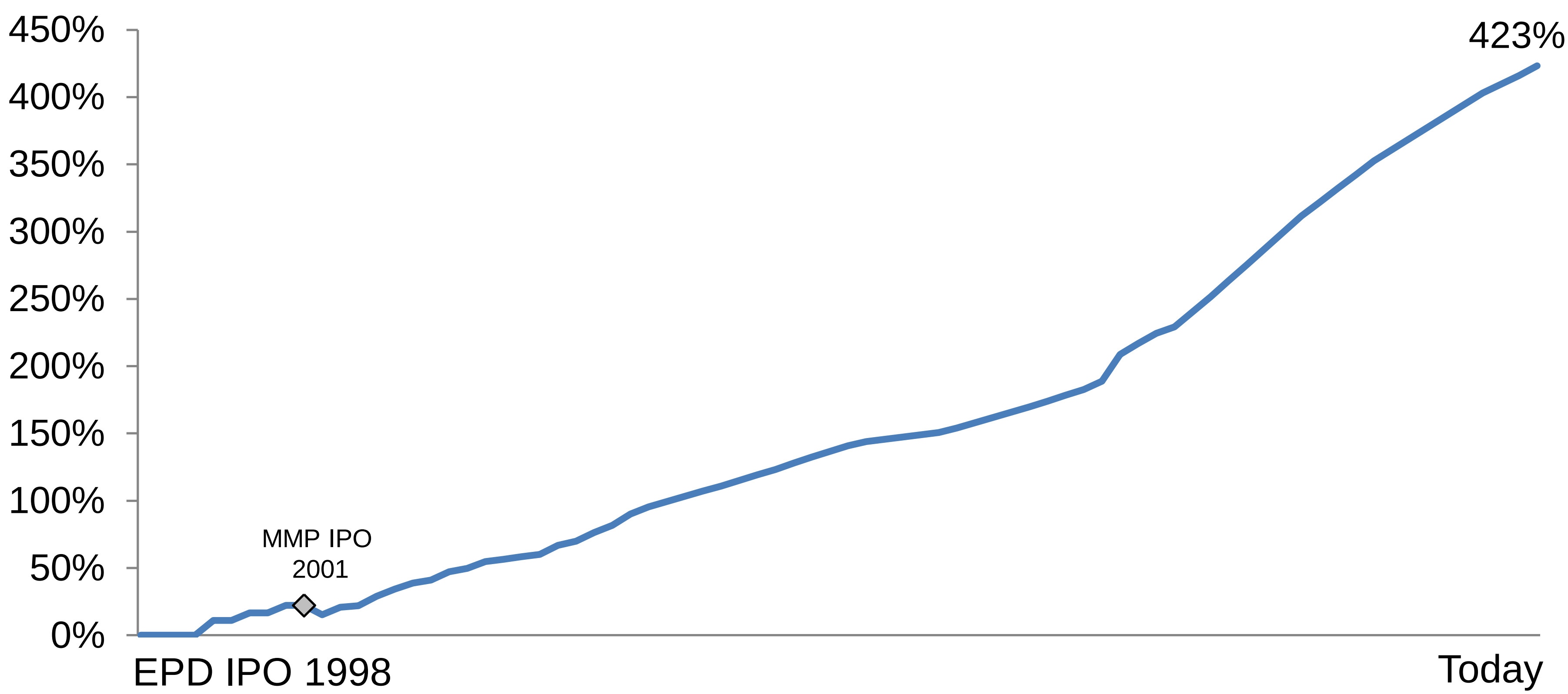
- Tax benefit enjoyed by partnerships has decreased relative to corporations

A tiger cannot change its stripes!

Despite the Doom and Gloom, the Model Works!

- A handful of MLPs have maintained steady distribution growth over a long period of time
- The model shows that stable assets, conservative management and a strong balance sheet lead to predictable growth

Cumulative EPD/MMP Distribution Growth Since IPO



Questions?