

NATIONAL ASSOCIATION OF PUBLICLY TRADED PARTNERSHIPS

National Association of Publicly Traded Partnerships Statement in Response to Wall Street Journal Article on Pass-through Entities

(Tuesday, January 10, 2012, Washington, D.C.) In response to a Wall Street Journal article discussing pass-through entities in relation to tax reform, the National Association of Publicly Traded Partnerships, a trade association representing publicly traded partnerships (commonly known as master limited partnerships and MLPs) stated, "MLPs serve an essential purpose in providing capital for important national priorities, and we believe that Congress will continue to recognize this fact, as it has continuously over the past two decades."

The article focuses largely on the small minority of MLPs that are in non-energy businesses. In addition it includes certain illustrations that appear to oversimplify the calculation of federal and state income taxes as applied to a corporation vs. a pass-through entity. It thus may significantly overstate the amount of additional tax revenue theoretically gained from corporate taxation.

The vast majority of MLPs are involved in capital intensive businesses that are almost exclusively located in and are strategic to the United States. A significant amount of the natural gas, crude oil, natural gas liquids and refined products produced and consumed every day in the United States is transported by pipelines and stored in facilities owned by these MLPs. Approximately 25 percent of the propane delivered to rural businesses and homeowners are delivered by assets owned by MLPs. MLPs have also played a leading role in building the energy infrastructure needed to facilitate the production of new sources of U.S. natural gas and crude oil from shale and non-conventional formations.

Changing the pass-through status of MLPs would increase their cost of capital; disrupt and reduce investment by MLPs in U.S. energy infrastructure; discourage the creation of permanent and construction jobs in the U.S.; retard the growth of domestic natural gas and crude oil production; increase the cost of energy delivered to U.S. industries, utilities and consumers; and increase U.S. reliance on foreign sources of energy. The NAPTP, its members and MLP investors will continue to vigorously communicate our message to our elected representatives in Congress that:

- The MLP structure authorized by the 1987 legislation and relied upon by businesses and investors for almost twenty five years ago has been extremely successful at encouraging investment in energy infrastructure;
- MLPs which invest in natural resources and real estate operates in the best interests of the United States as a whole as well as its individual citizens; and
- The idea of changing the taxation of pass-through entities, including MLPs engaged in natural resource and real estate activities, as corporations should be rejected.

The first MLP was formed thirty years ago. In 1987, Congress passed legislation to severely restrict MLPs to entities earning over 90 percent of their income from certain strategic business activities. Like real estate investment trusts (REITs), MLPs provide smaller, retail investors with a liquid investment in pass-through entities owning stable assets that provide an attractive cash yield and overall return. These MLPs generate mostly ordinary income on which investors pay taxes at ordinary income tax rates of as much as 35%. MLPs are largely owned by retail investors. Based on our research, approximately 80 percent of MLP equity interests owned by retail investors are owned by investors who are over 50 years old, many of whom are using the cash distributions received from PTPs to supplement either their retirement income or their plans for retirement.

MLPs subject to the 1987 legislation have been the leaders in investing new capital to build, acquire and expand the energy infrastructure in the U.S. necessary to transport and process domestic production of natural gas, crude oil, natural gas liquids and refined products. Since 2007, the largest 15 MLPs have invested over \$50 billion of capital to build, expand and maintain the U.S. energy infrastructure, which has resulted in the creation of a significant number of jobs during the current recession.

This includes investments in pipeline, processing and storage infrastructure that facilitates the growth of natural gas, crude oil and natural gas liquid production across the U.S. from such shale and non-conventional plays as the Barnett, Eagle Ford, Haynesville, Piceance, Bakken, Jonah/Pinedale, Marcellus and the developing Utica. The technological breakthroughs by the domestic energy industry in developing these formations have provided the U.S. a substantial resource base of environmentally friendly natural gas, but infrastructure is required to get this production treated, processed and transported to market.

For instance, one of the largest natural gas pipeline construction projects in U.S. history is a 1,679-mile pipeline with the capacity to transport up to 1.8 billion cubic feet per day

of production from the Rocky Mountains across eight states to markets in the Midwestern and Northeastern U.S. This was a \$6.8 billion project that generated approximately 20,000 construction jobs from 2007 to 2009 during the height of the Great Recession. A PTP was the developer, operator and leading investor in this project. In addition, a PTP is near completion of a 270-mile pipeline project in Louisiana to support the development of natural gas production from the Haynesville shale. This project entailed \$1.5 billion of capital investment and created approximately 3,600 construction jobs. Notably, these jobs were created by MLPs at a time when the underemployment rate in the U.S. was (and still is) over 16 percent.

A recent study by the Independent Natural Gas Association of America Foundation stated that, in the next 25 years, North America will require approximately \$250 billion of investment in natural gas, crude oil and natural gas liquid infrastructure. As recently as 2008, Congress passed legislation to expand MLP qualifying activities to include the transportation and storage of renewable fuels. Given the capital intensive nature of energy infrastructure, the lower cost of equity capital associated with PTPs results in lower costs to gather, process, transport, store and deliver U.S.-produced energy to U.S. consumers and that, in turn, results in lower energy bills for U.S. consumers.

In conclusion, any proposal changing the tax status of MLPs would increase the cost of capital for MLPs; disrupt and reduce investment in the U.S. energy infrastructure by MLPs; discourage the creation of permanent and construction jobs; retard the growth of domestic natural gas and crude oil production; increase the cost of energy delivered to U.S. industries, utilities and consumers; and increase U.S. reliance on foreign sources of energy. The proposal, if enacted, would also be harmful to most older Americans who have invested in MLPs, many of them in planning for their retirement.

The NAPTP will continue its outreach efforts with members of Congress to highlight the important policy benefits associated with the MLP structure.