Energy MLP Primer

What are MLPs?
Master Limited Partnerships (MLPs) are pass-through entities structured as publicly traded partnerships (PTPs). MLPs pay no corporate-level taxes and taxes are instead paid at the individual unitholder level. In addition to avoiding double-taxation, a portion of the cash distribution paid by an MLP is typically tax deferred at 50-100%. MLPs usually have a limited partner (LP) and general partner (GP). MLPs pay out the bulk of operating cash flows as distributions to LP and GP unitholders. Energy MLPs predominantly operate in the midstream energy sector including: transportation (pipelines), storage (terminals), gathering, processing, and other methods of handling natural gas, crude oil, and refined products. There are also other types of Energy MLPs engaged in oil and gas exploration and production (E&P), oilfield services and refining.

Tax advantaged yield with growth greater than inflation
MLPs provide investors with a tax advantaged yield which has historically grown at a rate greater than inflation. The elimination of double taxation (MLP taxes are paid at the individual unitholder level) tends to lower MLP’s cost of capital and thereby supports a higher valuation for assets in an MLP structure than in a conventional corporate structure, all else equal. Due to this cost of capital efficiency, MLPs may be able to invest in organic growth and acquire assets at more accretive levels than corporate peers. MLPs have traditionally grown via both M&A and organically. BofAML estimates the MLP sector can grow cash distributions by approximately 7% per annum through 2015. In addition, many MLP assets possess defensive characteristics such as take-or-pay contracts, fee-based assets, long-term contracts, and inflation escalators that can help mitigate downside risk in a weak economic backdrop.

MLP taxation comes with many caveats
As a unitholder in an MLP, investors receive a Schedule K-1 rather than a 1099 as a tax reporting form. The Schedule K-1 form can complicate investor tax returns and we also note the potential for MLP investors to file state taxes in the jurisdictions where MLPs conduct business. While some portion of MLP distributions are usually tax deferred, investors will eventually owe taxes on the income recaptured on the tax deferred portion of MLP distributions when units are sold. Also, there are potential complications owning MLPs in tax-deferred accounts as MLPs generate unrelated business taxable income (UBTI). As a tax advantaged entity, any discussion surrounding potential changes to the tax code could put MLPs at risk. However, we view the near-term likelihood of any major corporate tax reform deal as low.

For additional macro thoughts
For our recent macro thoughts on the MLP sector please see our recently published monthly presentation, Energy MLPs: Monthly sector presentation 02 July 2013.
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<td>Retail propane +/-</td>
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<tr>
<td>Other MLP businesses</td>
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</table>
How have MLPs performed vs. equity indices?

Strong performance track record versus the equity market

- MLPs have outperformed the S&P 500 and Russell 2000 over the past 10 years. Among other reasons, we think historical MLP sector outperformance has been driven by:
  
  - Recently rising U.S. crude oil and natural gas production that has created opportunity for MLP organic growth projects
  
  - Falling interest rate backdrop has driven MLP yields lower over time
  
  - Over the past decade, MLPs have acquired many assets that have not been held in MLP structures

The AMZ has outperformed broader markets over the past 10 years

More recently, MLPs have outperformed the market materially

Source: Factset, BofA Merrill Lynch Global Research analysis
Total returns as of the close, 28 June 2013

How have MLPs performed vs. REITS & Utes?

Strong performance track record versus other income-oriented equity securities

- MLPs have outperformed the FTSE NAREIT Composite and S&P 500 Utilities Index over the past 10 years

  - MLPs are often compared to other income generating equity sectors like REITs and utilities
MLPs have outperformed other income generating sectors

On a total return basis, MLPs have outperformed REITs and Utes

Do MLPs perform better than bonds?

MLPs exhibit a strong performance track record versus bond indices

- MLPs have outperformed the BofA Merrill Lynch High Yield Bond and Muni Bond Index over the past 10 years
  - MLPs exhibit some similar characteristics to bonds (such as a high yield)
  - However, we emphasize MLPs are equities and arguably have a higher risk profile than most areas of fixed-income
  - Investors in MLPs can earn a total return from capital appreciation and distributions versus just a coupon from a bond held to maturity

On an annualized basis, MLPs have outperformed high yield

On a total return basis, MLPs have outperformed high yield

Source: Factset, BofA Merrill Lynch Global Research analysis
Pre-tax total returns as of the close, 28 June 2013
Past performance is not necessarily a guide to future performance.
How do MLP yields compare?
MLPs generally trade at higher yields than utilities and REITs

The AMZ has historically exhibited a higher yield

Over time, AMZ yield has traded above REITs and Utilities

Source: Factset, Datastream, Alerian website, BofA Merrill Lynch Global Research analysis
Yields as of the close, 28 June 2013
Yields for FTSE NAREIT based on Bloomberg FNCO Index whereas all other references to FTSE NAREIT
Past performance is not necessarily a guide to future performance.
MLP 101: The basics

What is a publicly traded master limited partnership (MLP)?

- Limited partnership (LP) interests traded on a public exchange
- General partner (GP) manages partnership operations
  - Some GP interests also publicly traded
- Predominantly trade on the NYSE and NASDAQ
- Typically pay out bulk of operating cash flow as distributions (not dividends) to limited and general partners
  - Distributions are paid quarterly or monthly
  - Generally aim to grow cash distributions over time
- Taxation differs from other securities
  - No taxes paid at corporate level
  - Distributions to LP unitholders substantially tax deferred

What is the difference between an LP and GP?

Limited Partners (LPs)

- Have a passive interest in the partnership
- Entitled to cash distributions
- Provide most of the equity capital necessary to grow the partnership
  - Existing LP unitholders not subject to a cash call
- Limited voting rights

General Partners (GPs)

- Responsible for the management and operations of the partnership
- Own incentive distribution rights (IDRs)
- MLP board of directors at GP level

Why do sponsors form MLPs?

Tax efficiency
- MLPs only taxed once at the unitholder level

Higher valuations
- Elimination of double taxation lowers an MLP’s cost of capital, supporting higher valuation for assets in MLP structure than in a conventional corporate structure
- Valuation premium is motivation for a corporation to drop-down MLP-qualifying assets
Due to lower cost of capital, projects and acquisitions can be more accretive.

Advantage in pursuing growth projects and acquisitions
- Due to lower cost of capital, MLP projects and acquisitions can be more accretive

Sponsors still control assets via general partner (GP)
- After creating an MLP to house midstream energy assets, the corporation typically owns the GP interest
- GP responsible for managing day-to-day operations of MLP’s assets
- GP incentive distribution rights (IDRs) reward GP for growing MLP

MLP 101
What assets can MLPs own?
- To qualify for MLP status, partnerships must meet Internal Revenue Code requirements
- A partnership meets the gross income requirements…if 90 percent or more of the gross income…consists of qualifying income
  - The term “qualifying income” means (A) interest, (B) dividends, (C) real property rents, (D) gain from the sale or other disposition of real property…
  - (E) income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber),
  - (F) any gain from the sale or disposition of a capital asset…held for the production of income described in any of the foregoing subparagraphs of this paragraph, and (G)…income and gains from commodities…or futures, forwards, and options with respect to commodities
- Through the passage of the Renewable Energy and Job Creation Act in September 2008, qualifying income was expanded to include the transportation and storage of renewable fuels
- The MLP Parity Act, which was introduced in June 2012, proposed the inclusion of clean energy as MLP qualifying income. The bill did not advance to law but remains in play.

Are MLPs defensive?
Many MLP assets possess defensive characteristics which help support cash flows.
- Take-or-pay contracts
- Fee-based assets
- Longer-term contracts
- Contracted expansions
- Inflation escalators built into many tariffs
Some MLPs have more commodity sensitivity than others.

But different types of energy MLPs arguably higher risk
- Direct commodity price risk for natural gas gathering & processing MLPs (G&P)
- Indirect commodity sensitivity from declining drilling activity
- Crude oil and refined products pipelines volume sensitive

MLPs as an asset class
MLP sector has grown in size and number
- Aggregate MLP market cap has more than doubled in past five years
- Since 2000, number of Energy MLPs has grown from 23 to 100 since 2000.

How do MLPs determine distributions?
Distributable cash flow (DCF) determines appropriate distribution level
- Distributable cash flow (DCF) calculation:
  - Recurring net income + DD&A + other non-cash items/adjustments to reserves – maintenance capex
- Coverage ratio calculation:
  - DCF / Total cash distribution
- Typically target a cash distribution coverage ratio of 1.0x – 1.2x
  - But, coverage ratios can vary significantly by MLP and MLPs are not required to pay out a specified amount of DCF as reserves can be established by an MLP’s GP
  - MLP distribution coverage can fall below 1.0x for a period of time
MLPs versus corporations

There are several distinctions between MLPs and corporations

<table>
<thead>
<tr>
<th>Security type</th>
<th>MLPs</th>
<th>Corporations</th>
</tr>
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<tbody>
<tr>
<td>Taxation level</td>
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<tr>
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<td>K-1s</td>
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<td>Payments</td>
<td>Distributions</td>
<td>Dividends</td>
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<td>General Partner</td>
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Overview of IDRs

What are GP incentive distribution rights (IDRs)?
- As cash distributions per LP unit rise through different intervals (called splits or tiers), the GP is entitled to an increasing percentage of the incremental cash distributed by the partnership (commonly up to 50%)

Incentive distribution rights (IDR) case study

<table>
<thead>
<tr>
<th>Tier</th>
<th>Distribution per ETP LP unit: $1.00</th>
<th>Distribution per ETP LP unit: $1.50</th>
<th>Distribution per ETP LP unit: $2.00</th>
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<tbody>
<tr>
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<td>GP</td>
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<td>0.08</td>
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<tr>
<td>4</td>
<td></td>
<td>0.35</td>
<td>0.35</td>
</tr>
</tbody>
</table>

Distribution growth: 50% 546% 33% 540%

Distribution examples closely reflect ETP's actual annualized declared distributions in 1Q97 ($1.00), 3Q04 ($1.50) and 4Q05 ($2.00)

- **Scenario 1**: $1.00 distribution to LP unitholders falls within first tier; GP not entitled to IDRs
  - $0.02 distribution to GP represents 2.0% of the total $1.02 distributed

- **Scenario 2**: $1.50 distribution to LP unitholders falls within third tier; GP entitled to $0.11 in IDRs
  - $0.13 distribution to GP represents 7.9% of the total $1.63 distributed

- **Scenario 3**: $2.00 distribution to LP unitholders falls within final tier; GP entitled to $0.51 in IDRs
  - $0.53 distribution to GP represents 20.9% of the total $2.53 distributed

Incentive distribution rights (IDRs) entitle general partner to an increasing percentage of incremental cash distributed by partnership.
IDRs incentivize GP to grow cash distributions but raise MLP’s cost of equity over time.

Some MLPs have restructured its IDRs, which we view favorably.

MLPs are tax advantaged. In addition to paying no taxes at the corporate level, 50-100% of distributions are typically tax deferred.

However, MLP investors receive a K-1 (versus 1099) – typically viewed as a cumbersome tax form, eventual income recapture when units sold, potential for state tax filings, and complications holding MLPs in tax-deferred accounts.

Information on MLP taxation has been sourced from the National Association of Publicly Traded Partnerships (NAPTP) website at naptp.org

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**IDRs are a double-edged sword**

**IDRs benefit and negatively impact LP unitholders**
- IDRs incentivize the GP to grow cash distributions to LP unitholders…
- …but effectively increase a partnership’s cost of equity over time, making it more difficult to increase cash distributions, a negative for LP unitholders

**What are IDR restructurings?**
- To mitigate impact of increasing cost of equity capital, an MLP may restructure its IDRs, which we tend to view favorably (all else equal)
  - TCP capped IDRs at 25% level
  - MMP’s buyback of its GP, MGG, effectively eliminated its IDRs
  - BPL’s buyback of its GP, BGH
  - NRGY’s buyback of its GP, NRGP
  - EPD’s buyback of its GP, EPE
  - NRP’s elimination of GP IDRs
  - GEL’s buyback of its GP

**What are the considerations for MLP taxation?**

**Positives:**
- No taxation at corporate level
- Cash distributions to LP unitholders usually substantially tax deferred
  - Most MLP cash distributions approximately 50-100% tax deferred
  - Non-tax deferred portion taxed at ordinary income rates
  - Deferred distributions recaptured at ordinary income tax rates when units are sold
  - Other tax-friendly features

**Negatives:**
- Schedule K-1 filing requirements
  - K-1s instead of 1099s
- Eventual income recapture on the tax deferred portion of MLP distributions when units are sold
- Potential state tax filings where MLPs operate
- Tax-deferred account complications (MLPs generate UBTI)

**MLPs in tax-deferred accounts**

**Can investors own MLPs in an IRA?**
- Yes, subject to some limitations. Partnership income allocated to a tax-
exempt organization or a retirement trust like an IRA (including Roth IRAs) may be considered unrelated business taxable income (UBTI) subject to tax. However, it will not be taxed as long as the amount of this income (and all other sources of UBTI), minus the IRA’s share of partnership deductions, does not exceed $1,000 in any year. Even if there is some tax on the IRA’s allocated share of partnership income, the partnership distributions will generally be high enough to provide a favorable return on an after-tax basis.

If the MLPs generate UBTI exceeding $1,000 does the investor have to pay the tax? How is it paid?

- The investor does not pay any tax himself or herself: the IRA is the unitholder and therefore is the taxpayer. The custodian of the IRA will be responsible for filing an IRS Form 990T.

Does BofAML track unrelated business taxable income (UBTI) generation?

- No, BofAML does not. The level of UBTI generated can vary significantly by year and by MLP. The investor relations department of each MLP should be able to offer more specific information.

How to gain exposure to MLPs without a K-1?

What are i-shares?

- MLP I-Shares are paid-in-kind (PIK) securities that were created as a means to facilitate institutional ownership of MLPs by simplifying the taxation and administrative implications of the MLP structure

  - Generates 1099, not Schedule K-1
  - No UBTI generated, so can be owned in IRA
  - Tax treatment of I-share dividends similar to a stock split
    - Given a one-year holding period, I-share dividends are wholly tax-deferred and recaptured at long term capital gains rates when sold
    - Example of cost basis calculation: suppose an investor purchases 100 shares of XYZ, for a total of $1,000, or $10 per share. If the investor receives 10 shares in distributions, his investment of $1,000 would now be distributed over 110 shares (original 100 shares + 10 shares in distributions) resulting in a reduced cost basis of $9.09.

I-shares in MLP sector

- Enbridge Energy Management, L.L.C. (EEQ)
  - Economically equivalent to Enbridge Energy Partners, L.P. (EEP)
- Kinder Morgan Management, L.L.C. (KMR)
  - Economically equivalent to Kinder Morgan Energy Partners, L.P. (KMP)

General partners structured as c-corps

- Some MLP general partners are structured as c-corps (1099) and some are structured as MLPs.
MLP general partners

<table>
<thead>
<tr>
<th>C-corp</th>
<th>MLP</th>
</tr>
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<tbody>
<tr>
<td>1099</td>
<td>K-1</td>
</tr>
</tbody>
</table>

- Kinder Morgan, Inc. (KMI)
- Targa Resources Corp. (TRGP)
- Crosstex Energy, Inc. (XTXI)
- Energy Transfer Equity, LP (ETE)
- NuStar GP Holdings, LLC (NSH)
- Alliance Holdings GP, LP (AHGP)
- Atlas Energy, LP (ATLS)
- Western Gas Equity Partners, LP (WGP)

Source: Partnership filings

MLP Closed End Funds (CEFs)

- Generate 1099, not Schedule K-1
- No UBTI generated, so can be owned in IRA
- Structured as traditional C-corporations
  - Taxed at the corporate level, and therefore pay dividends rather than distributions
- MLP CEFs still able to pass on tax-deferred nature of MLP distributions
  - Majority of CEF dividends (usually 80-100%) treated as return of capital (ROC)
- Dividends treated as ROC and serve to reduce cost basis
- Given a one-year holding period, CEF dividends recaptured at long term capital gains rates when sold (difference between reduced cost basis and price sold taxed at LT cap gains rates). Non-ROC dividends taxed at dividend tax rates
  - For more details, see BofAML’s MLP CEF Monthly

MLP Closed-end-funds

<table>
<thead>
<tr>
<th>CBA</th>
<th>ClearBridge American Energy MLP Fund Inc.</th>
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<tbody>
<tr>
<td>CTR</td>
<td>ClearBridge Energy MLP Total Return Fund Inc.</td>
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<td>CEM</td>
<td>ClearBridge Energy MLP Fund</td>
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<tr>
<td>EMO</td>
<td>ClearBridge Energy MLP Opportunity Fund Inc.</td>
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<tr>
<td>MIE</td>
<td>Cohen &amp; Steers MLP Income and Energy Opportunity Fund Inc.</td>
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<tr>
<td>SRV</td>
<td>The Cushing MLP Total Return Fund</td>
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<td>FEI</td>
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<tr>
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<td>First Trust Energy Income and Growth Fund</td>
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<tr>
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<td>First Trust Energy Infrastructure Fund</td>
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<tr>
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<td>Kayne Anderson Midstream/Energy Fund Inc.</td>
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<td>TTP</td>
<td>Tortoise Pipeline &amp; Energy Fund Inc.</td>
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Source: Partnership filings

A CEF employs active management and has exposure to private placement deals and can employ leverage. A portion of dividends are treated as a return of capital and the yield mirrors direct investment in MLPs.
ETNs are notes issued by a financial institution that trades on an exchange and designed to provide a return that mimics an underlying index. ETN are a form of senior unsecured debt (carry credit risk of issuer). ETNs do not benefit from tax deferral and dividends are taxed at ordinary income rates.

ETFs trade on an exchange and seek to generate investment returns that correspond to an underlying index. However, many MLP ETFs have a tracking error to the index due to taxes / accrued paid at the fund level.

An open-end mutual fund employs active management. Open-end fund performance may be impacted by corporate taxes, which may cause a tracking error and may not mirror an MLP basket.

The MLP space is less liquid than many other sectors. However, liquidity has improved over time.

Marine transportation MLPs that generate 1099s
- CPLP, NMM, TOO, KNOP

How liquid is the sector?
Thin liquidity in MLP space is an issue
- 1-year average daily volume (ADV) of 840 thousand shares for average MLP
- Limit orders highly recommended when transacting in the MLP sector
Has liquidity improved over time?

Liquidity in MLP space has been improving
Avg monthly dollar trading vol ($mn)

<table>
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<tr>
<th>MLPs (Ticker)</th>
<th>3 month Average</th>
<th>6 month Average</th>
<th>1 year Average</th>
<th>3 year Average</th>
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<td>931</td>
<td>840</td>
<td>729</td>
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Source: Bloomberg, B of A Merrill Lynch Global Research analysis
Data as of the close, 28 June 2013

How do MLPs grow?
MLPs aim to grow cash distributions to unitholders. Since MLPs pay out the majority of their distributable cash flow, they must grow underlying cash flow in order to sustain distribution growth. MLPs can generally grow through:

- Organic growth
- Third party acquisitions
- Drop-downs from GPs
- Consolidation
- Tariff increases or volumetric growth at different existing assets
What do MLPs acquire?
M&A activity among Energy MLPs by asset class has continued to be diversified
- 2011 activity heavily skewed by KMI/EP and ETE/SUG mergers
- 2012 activity skewed by ETP/SUN merger and Marcellus-focused M&A
- 2013 skewed by KMP/CPNO acquisition, NRGM/CMLP merger

What are drop-downs and do they grow MLPs?
Historically, large portion of M&A activity has been asset drop-downs from GPs
A ‘drop-down’ is the sale of an asset from an MLP’s GP to the MLP. A GP can choose to incubate an asset before it is suitable for an MLP or a GP can have operations of its own which it aims to ‘drop-down’ to the MLP over time.

- Pronounced GP ‘drop-down’ trend to continue:
  1. Capital markets currently remain open
  2. MLP valuations generally attractive relative to sponsor valuations
  3. ‘Drop-downs’ are a means to grow and/or stabilize MLPs in the face of challenges
  4. ‘Drop-down’ stories can achieve a premium valuation given a more transparent growth profile
MLPs typically operate in midstream energy sector, generally lack direct commodity exposure, stable cash flows, and many assets are regulated.

Natural gas midstream infrastructure consists of inter/intrastate pipelines, storage, gathering, processing and fractionation.
Interstate pipelines are regulated by the FERC, intrastate by the state agencies, and gathering systems are largely unregulated.

- Separating natural gas liquids (fractionation)

**Regulation**
- Interstate pipelines: Federal Energy Regulatory Commission (FERC)
- Intrastate pipelines: State agencies
- Gathering systems: Largely unregulated

MLPs under BofAML coverage with natural gas midstream activities
- AMID, APL, BPL, BWP, ACMP, CPNO, CMLP, DPM, EPB, EEP, EPD, EQM, ETP, KMP, MMLP, MWE, NGLS, NRGM, OKS, PAA, RGP, SEP, SMLP, TCP, TEP, WES, WPZ

**US natural gas pipeline map**

Natural gas pipelines and storage have limited commodity sensitivity, regulation adds to long-term stability.

**Natural gas midstream +/-**

**Positives**
- **Pipelines/storage**
  - Revenues generally have no direct commodity sensitivity, backed by longer-term contracts
  - FERC regulation adds to long-term stability
  - Contracts with shippers predominately capacity based (not throughput)
  - Solid outlook driven by unconventional gas production, future liquefied natural gas (LNG) imports
Natural gas processing and fractionation have commodity sensitivity but solid fundamentals from drilling activity and volume growth in several basins.

Natural gas pipeline competitive can force discount rates and FERC regulations caps earnings.

Gathering and processing assets are not as long-lived as pipeline/storage assets, lower drilling activity can directly affect volumes.

- **Gathering, processing and fractionation**
  - Commodity sensitivity can be mitigated via contract structure
  - Solid fundamentals from drilling activity, long-lived nature of many natural gas reserves
  - Significant volume growth in several basins expected as NGL pricing more robust than natural gas

- **Negatives**
  - **Pipelines/storage**
    - Competition can force natural gas pipelines to discount rates
    - FERC regulation caps rates pipelines can charge customers
    - Cost overruns on expansion projects may limit returns
  - **Gathering & Processing**
    - More commodity sensitive
    - NGLs used as feedstock for economically sensitive petrochemical industry
    - Not as long-lived as pipeline/storage assets
    - Lower natural gas drilling activity could hamper volume trends

- **Crude oil midstream infrastructure**
  - **Inter/intrastate pipelines**
    - Cost-competitive transportation option
  - **Storage**
  - **Gathering**
  - **Regulation**
    - Interstate pipelines: FERC
    - Intrastate pipelines: State agencies
    - Gathering systems: Unregulated
  - **MLPs under BofA/ML coverage with crude oil activities**
    - EEP, EPD, DKL, GEL, HEP, KMP, MMP, MPLX, NS, OILT, PAA, SXL, TLLP
Crude oil pipelines are FERC regulated, limited direct commodity sensitivity, and have potential upside from contango vs. backwardated markets.

Growth in U.S. onshore production should drive increased volumes on pipelines.

Some crude oil pipelines overly dependent on refinery demand which can be subject to turnarounds.

US crude oil pipeline map

Crude oil midstream +/-

**Positives**

- **Pipelines/storage**
  - FERC regulated index-based rate system creates a partial hedge against inflation through annual tariff increases of PPI +2.65%
  - Limited direct commodity risk
  - Crude pipeline tariffs do not vary with prevailing levels of commodity prices
  - Underlying volumes shipped relatively stable due to refinery demand profile
  - Potential upside from market structure for storage (contango versus backwardation)
  - Solid outlook driven by growth in US onshore production, Canadian oil sands production, and other foreign imports
  - High crude oil grade differentials provide upside opportunities

**Negatives**

- **Pipelines/storage**
  - A prolonged period of high prices and economic weakness could lead to a reduction in demand and lower shipments
  - Some pipelines overly dependent on one refinery
Refineries schedule periodic turnarounds, during which time crude oil pipelines could be impacted, particularly those connected to only one refinery.

**Refined products midstream**

**Types of refined products:**
- Gasoline, jet fuel, diesel, home heating oil, lubricants

- **Inter/intrastate pipelines**
  - Cost competitive transportation option

- **Storage**

- **Regulation**
  - Interstate pipelines: FERC
  - Intrastate pipelines: State agencies
  - Storage: Unregulated

- MLPs under BofAML coverage with refined products activities
  - BPL, EEP, DKL, HEP, GEL, KMP, MMP, MPLX, NS, OILT, SXL, TLLP, TLP

**US refined products pipeline map**

*Source: Association of Oil Pipelines*
Refined products midstream +/-

**Positives**
- **Pipelines/storage**
  - Relatively stable demand profile
  - Refined products demand projected to increase
  - Limited direct commodity risk
  - Product pipeline tariffs do not vary with prevailing levels of commodity prices
  - FERC regulated index-based rate system creates a partial hedge against inflation through annual tariff increases of PPI + 2.65%
  - Growth investments driven by ethanol, ultra-low-sulfur diesel (ULSD), increasing refined products imports

**Negatives**
- **Pipelines/storage**
  - Unspectacular underlying volume growth
  - A prolonged period of high prices for refined products or an economic slowdown could reduce demand and lower shipments on pipelines

Propane

**Produced as by-product of natural gas processing and petroleum refining**
- About 4% of US household energy needs are met with propane

**Uses of propane**
- Residential: space and water heating, indoor/outdoor cooking
- Industrial: drying, energy source in manufacturing, engine fuel for forklifts
- Agricultural: crop drying, irrigation, weed control, space heating
- Other: alternative transportation fuel powering vehicles used by school districts, gov’t agencies, and taxicab companies; fuel for hot air balloons

What affects propane prices?
- Crude oil and natural gas prices
- Supply/demand balance
- Distance from supplier
- Markets served
Propane markets are lightly regulated, fragmented, and able to maintain unit margins in volatile commodity price environments. However, propane demand is highly seasonal, sensitive to macroeconomic elements, and there are low barriers to entry for competitors.

Other energy related MLPs include: coal, exploration and production, refining, and marine transportation.

**Retail propane +/-**

**Positives**
- Lightly regulated
- Historical ability to maintain unit margins in volatile commodity price environments
- Fragmented nature of retail propane market expected to consolidate

**Negatives**
- Propane demand is highly seasonal
- Sensitive to broader macroeconomic elements; customer conservation as a result of a sluggish economy and energy efficiency can negatively impact demand
- Low barriers to entry for competitors

**Other MLP businesses**

**Other energy related MLP businesses**
- Coal
  - Some MLPs lease mine acreage while others own mines
- Exploration and production (E&P)
  - First E&P MLP launched in January 2006
  - Long-lived production in tandem with commodity price hedges
- Refining
  - Conventional and specialty refining
- Marine transportation
  - Refined products, dry bulk, LNG carriers and crude oil shuttle tankers

- Miscellaneous
  - Theme Parks (FUN)
  - Financial Services (AB, APO, BX, CG, FIG, KKR, OAK, OZM)
  - Fertilizer (TNH, RNF, UAN)
  - Deathcare (STON)
  - Timber (POPE)
  - Petrochemicals (PDH)
  - Oilfield Services (HCLP, SDLP, EMES)

Link to Definitions

Energy

Click [here](#) for definitions of commonly used terms.
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