

MLP Tax & Legislative Panel

Wells Fargo Securities 2013 Pipeline, MLP, and Energy Symposium

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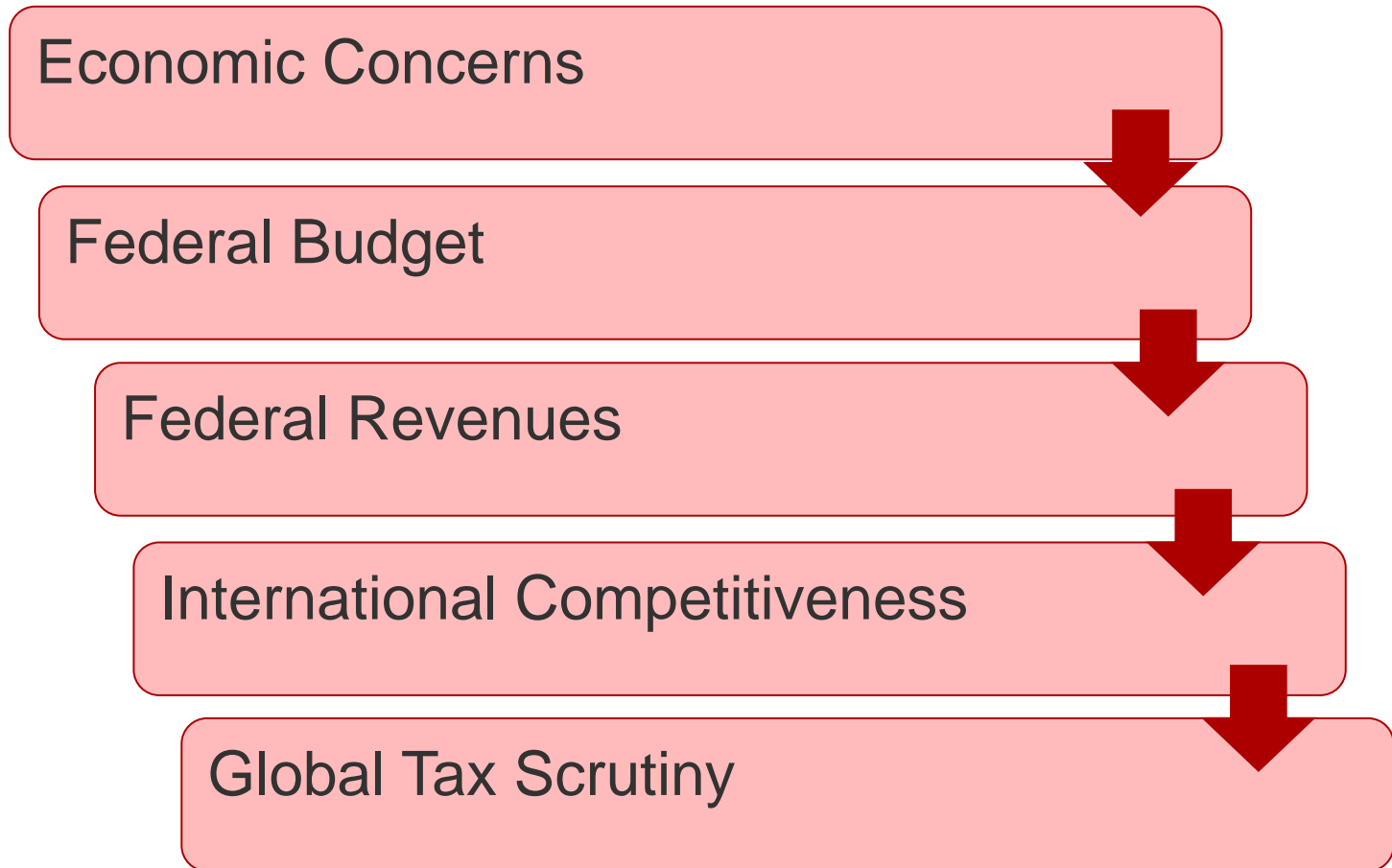
December 10, 2013



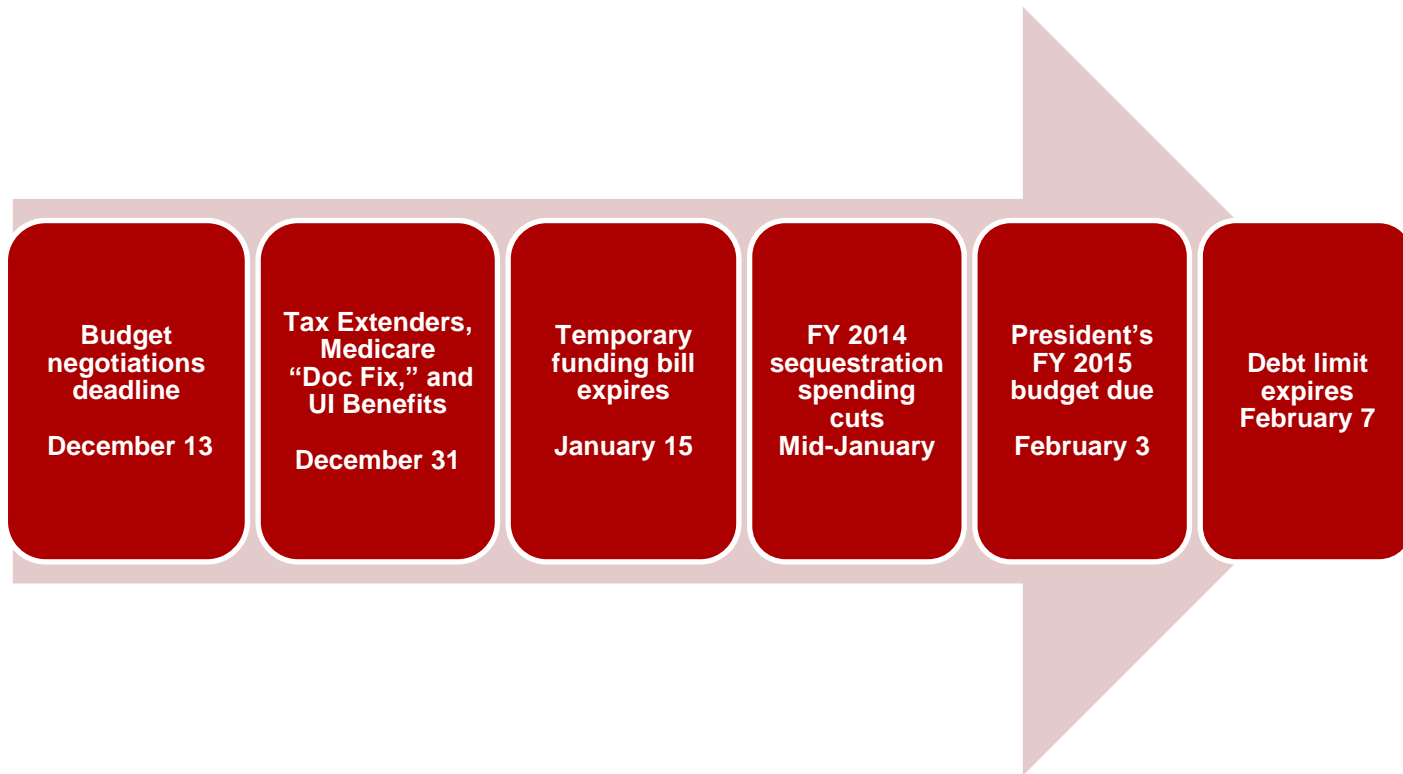
Legislative Update



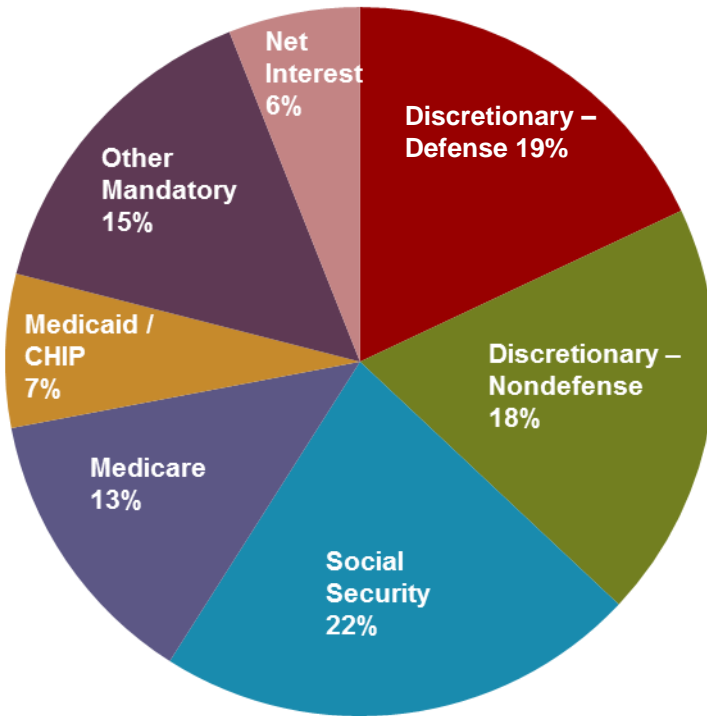
Issues influencing US tax policy



Upcoming fiscal policy deadlines

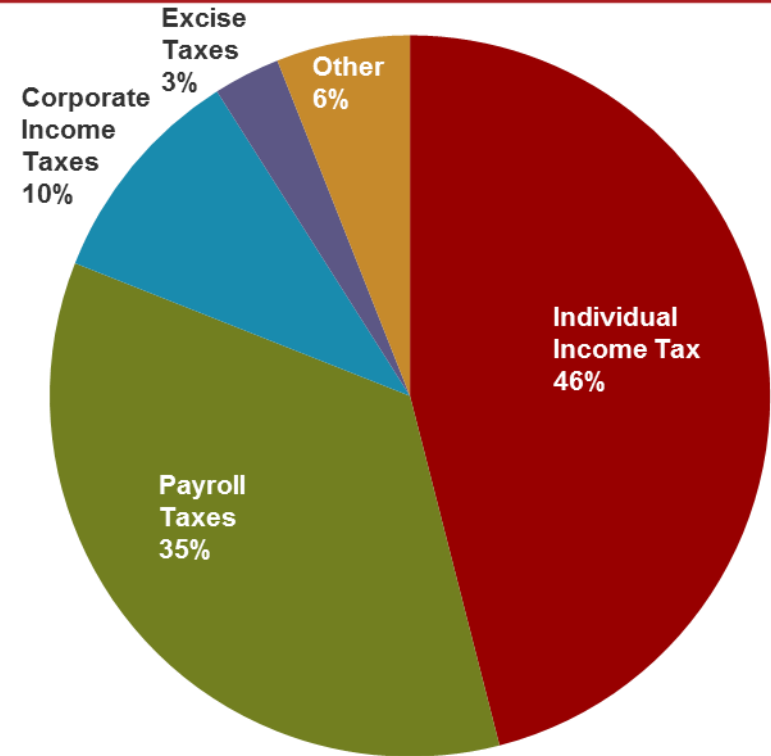


Components of Federal Spending & Revenue



FY 2012 Outlays = \$3,538 billion

Discretionary	1,285
Mandatory	2,031
Net Interest	233



FY 2012 revenue = \$2,449 billion

Individual tax	1,132
Payroll	845
Corporate Tax	242
Excise Tax	79
Other	150

Source: Congressional Budget Office, Economic and Budget Outlook (February 2013)

Master Limited Partnerships Parity Act

Expand eligible MLP investments to include renewable energy projects

- House and Senate bills introduced in April 2013 (H.R. 6437, S. 3275) by Rep. Ted Poe (R-TX) and Senator Chris Coons (D-DE)
 - Wind
 - Solar
 - Ethanol
 - Cellulosic
 - Biodiesel
 - Biomass
 - Geothermal
 - Solid Waste
 - Fuel Cells
 - Hydropower
 - Transmission lines
 - Combined heat and power

Individual Tax Rates for 2013

	Wage Income	Interest Income	Dividends	Capital Gains
2013 top rate	39.6%*	39.6%	20.0%	20.0%
2013 phase-out of itemized Deductions**	+1.2%	+1.2%	+1.2%	+1.2%
2013 HI surtax	+0.9%	+3.8%	+3.8%	+3.8%
Total increase in rate	+2.1%	+5.0%	+5.0%	+5.0%
2013 top rate	41.7%	44.6%	25.0%	25.0%

- **Assumes tax payer has ordinary income that exceeds itemized deductions.
- Does not include 1.45% current law employee share of Medicare HI tax (additional 1.45% applies for self-employed)
- Note: Rates shown represent the equivalent top marginal tax rate on each additional dollar of income earned in the top income tax bracket.



**Update on IRS
Private Letter Rulings**



Recent Private Letter Rulings

- Thirty private letter rulings released since November 2012.
- Specific to the taxpayer and not to be cited as precedent
- Useful indication of the Service's thinking, as well as an indication of the types of activities being considered for MLPs.

Recent Private Letter Rulings

	Rulings – Last 12 months	Total Rulings	2012-2013 MLP IPOs
Oil Field Services	9	18	0
E&P	0	1	1
Midstream (Transportation and Processing)	7	26	17 (+2 GPs)
Downstream (Refining and Processing)	7	12	4
Distribution	0	2	4
Real Property Rents	1	7	0
Mining	3	5	3
Fertilizer	2	4	1
Interest Rate Hedging	1	6	0
Wood Products	0	7	0
Subpart F Income	0	3	0
Other Categories		12	5
Totals	30	103	37

Why the Number of PLRs Doesn't Matter

- IRS National Office
- Who is asking for rulings?
 - Existing MLP
 - Clearing out the bucket – 90% test
 - New Lines of business
 - “Oh, *&%#”
 - New “prospective” MLP
 - Serious about a capital market transaction
 - Capital infusion
 - M&A – dual process

Natural Gas Processing

PLR 201346007

MLP planned to process natural gas into methanol and synthesis gas. MLP then planned to sell the methanol and synthesis gas to third-party distributors, who then further distribute the methanol and synthesis gas to end-user customers.

Ruling

Income from processing and marketing methanol and synthesis gas produced from the processing of natural gas will constitute qualifying income within the meaning of Section 7704(d)(1)(E).

Natural Gas Processing (gas to liquids)

PLR 201324002

MLP processes natural gas into methanol and synthesis gas. MLP further processes methanol and synthesis gas into gasoline and liquefied petroleum gas (LPG).

MLP sells gasoline, LPG, methanol, and synthesis gas to third-party distributors, who then further distribute or process the products.

Ruling

Income derived from the processing and marketing of gasoline, petroleum gas, methanol, and synthesis gas produced through processing of natural gas will constitute qualifying income under Section 7704(d)(1)(E).

Mining and processing kaolin and bauxite for use as ceramic proppant

PLR 201330027

MLP plans to mine, process, and market sedimentary kaolin and bauxite for sale to oilfield service companies for use as a ceramic proppant in the production of crude oil and natural gas.

Ruling

Income from the mining, processing, and marketing of sedimentary kaolin and bauxite for sale to oilfield service companies for use as a ceramic proppant constitutes qualifying income under Section 7704(d)(1)(E).

Mining, processing and marketing sand and ceramic proppants

PLR 201330026

MLP plans to mine, process, and market sand and ceramic products to oilfield service companies, to be used as proppants in hydraulic fracturing operations. MLP will also produce and sell well stimulation products, which increase the efficacy of certain proppants, to the oilfield service companies.

Ruling

Income from the mining, processing, and marketing of sand and ceramic products for sale to oilfield service companies constitutes qualifying income under Section 7704(d)(1)(E).

Production of products marketable as fertilizer

PLR 201331002

Partnership is engaged in the production and marketing of nitrogen fertilizer products, including ammonia, UAN, and urea. One of its customers includes a specialty petroleum products distributor that purchases liquid urea and dilutes the urea for resale as diesel exhaust fluid. MLP represents that this concentration is suitable for use as a fertilizer.

Ruling

Income from non-retail sale of liquid urea to petroleum products distributors constitutes qualifying income under Section 7704(d)(1)(E) to the extent that the products in question would otherwise be marketable as fertilizer for agricultural purposes.

Production of products marketable as fertilizer

PLR 201308004

MLP proposed selling its nitrogen fertilizer products, including ammonia, urea, and UAN fertilizer, to customers operating in non-agricultural industries. MLP also intended to sell nitric acid, produced as an intermediary step in the production of its direct-application fertilizer products, to customers operating in non-agricultural industries.

Ruling

Income derived from the production and marketing of ammonia, urea, UAN fertilizer, nitric acid, and urea in solution for non-retail sale to customers operating in non-agricultural industries will constitute qualifying income under Section 7704(d)(1)(E) to the extent that the products in question would otherwise be marketable as fertilizer for agricultural purposes.

Investor Update

Investor Statistics - 2012

Source: PricewaterhouseCoopers LLP

Entity Type	Total Accounts*	Percent	Total Units	Percent
Individual	4,122,581	40.96%	2,377,261,552	34.63%
Corporation	198,911	1.98%	1,206,496,316	17.57%
Partnership	159,180	1.58%	699,294,065	10.19%
Estate	36,903	0.37%	40,330,317	0.59%
Trust	1,563,324	15.53%	1,163,910,132	16.95%
Foreign Citizen	196,963	1.96%	352,522,568	5.14%
Exempt Organization	68,481	0.68%	101,450,056	1.48%
IRA/SEP/KEOGH	3,362,894	33.42%	713,062,235	10.39%
Pension Plan	114,099	1.13%	60,759,345	0.89%
Qualified Ret. Plan	15,493	0.15%	3,613,790	0.05%
Clearing Entity	15,892	0.16%	118,037,718	1.72%
Roth IRA/Education IRA	<u>209,057</u>	<u>2.08%</u>	<u>28,353,028</u>	<u>0.41%</u>
	8,057,278	100.00%	6,865,091,122	100.00%

* Total Accounts are the accounts holding a position at some time during the tax year

IRS Circular 230 Disclosure

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