STATEMENT FOR THE RECORD

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Secretary Moniz, Congresswoman Maloney, and distinguished guests and members of the Quadrennial Energy Review Task Force, thank you for the opportunity to present information on the challenges and opportunities facing the natural gas and liquid fuels space with regard to its infrastructure needs.

I am Lindsay Sander, Founder of Sander Resources and I am here to speak on behalf of the National Association of Publicly Traded Partnerships (NAPTP).

NAPTP is a trade association representing publicly traded partnerships (PTPs), more commonly known as master limited partnerships (MLPs), and other companies that provide services to MLPs or otherwise have an interest in their welfare. We currently have 156 full and associate members and represent 100 MLPs.

We are here today because of the pivotal role MLPs have played in supporting key aspects of the energy community. For more than 25 years, MLPs have financed the expansion of our domestic energy infrastructure, delivering a wide variety of energy resources from the production fields to American homes, businesses, and communities. MLPs operate in every state, producing, processing, transporting, storing, and distributing energy products to meet the needs of that state's residents.

Today we would like to highlight the historical framework in which MLPs were created, the role and the benefits MLPs provide in the current energy renaissance and importance of the structure going forward.

Background

MLPs have been in existence since 1981, and were first created to add liquidity to partnership investments during a time when the industry was investing in significant exploration and production activity to the tune of nearly $56 billion[1] annually, or nearly $151 billion in today's dollars.

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[1] R. Glenn Hubbard, Asymmetric Information, Corporate Finance, and Investment, National Bureau of Economic Research, 1990.

During this time, MLPs provided businesses that had traditionally operated in partnership form with the ability to raise needed capital from individual investors who could not afford the sizeable, illiquid, investment demanded by nontraded partnerships. By creating partnership investments that came in affordable units, which were liquid, MLPs allowed smaller investors to invest in energy and real estate development while providing those industries with a valuable new source of capital. Further, by utilizing the partnership structure, the capital was taxed just once at the partner level, which resulted in the cost of capital being reduced for the MLP.

This new structure brought significant investment to the industry, but also created a structure that other industries were also interested in leveraging. Companies like the Boston Celtics, Burger King and Motel 6 embraced the structure and created MLPs. The trend created by the new structure of the publicly traded partnership resulted in the review of its use and purpose during the Congressional tax reform discussions of the mid-1980s.

As a result, in 1987 Congress enacted Section 7704 of the Internal Revenue Code to limit MLPs to the industries that had traditionally used partnerships. In doing so, Congress acknowledged the importance of this structure and the need to provide a manner by which entities that have controlled or limited rates of return can have access to capital through the marketplace.

The adopted provision, Section 7704, then limited pass-through tax treatment to publicly traded partnerships receiving at least 90 percent of their gross income from a narrow range of business activities, primarily those related to depletable natural resources. Natural resources include oil, natural gas, coal and other minerals, fertilizer, and timber, while permissible activities include exploration, development and production, mining, gathering and processing, natural gas compression, transportation by pipeline, ship, or truck, storage, refining, marketing, and distribution.

MLPs Today

For many of the last 26 years, the number of MLPs remained relatively constant as some were phased out due to the new requirements of Section 7704 while others were created or acquired. In the last few years, however, the number of MLPs has grown in response to the needs created by increased oil and gas production. As of last week, 144 MLPs are actively trading on one of the three national stock exchanges. Of these, the majority remain primarily engaged in natural resource activities. Natural resource MLPs comprise close to 85 percent of MLPs by number, and about 90 percent of MLP market capital.[2]

The "midstream" sector owns more than 375,000 miles of natural gas, natural gas liquids, refined product, and crude oil pipelines, a vast network ranging from local gathering lines that bring products from the field to processing plants to major interstate pipelines traversing thousands of miles. These pipelines are the backbone of our domestic energy system, serving as the link between energy producers and end-use consumers.

[2] Wells Fargo – Equity Research, MLP Monthly, September 2014.

The total market capital of MLPs is currently approaching $700 billion, of which close to $600 billion is in the natural resource sector.[3] MLPs raised over $42.7 billion in equity capital during 2013 and have raised $15 billion through September of this year.[4] Not counting acquisitions, MLPs made $35.5 billion in capital expenditures in 2013 and are expected to maintain this level in 2014.[5]

The reason for this is the considerable capital necessary for the construction of pipelines, processing plants, and other assets, which makes the cost of capital a very important consideration for midstream companies. As an example, the cost of building one mile of gathering or transmission pipe ranges from $20,000 to $155,000 per inch mile based on diameter.[6] The cost of a processing or treating facility can easily exceed $100 million. This does not seem to be a lot until one considers that the industry will need to build or replace 500,000 miles of pipeline over the next 20 years to serve the needs of energy producers and American consumers.[7]

Raising the capital necessary to construct these facilities is the primary hurdle as once these assets are in place, they last a long time and generate a steady and reliable stream of revenue. This is a fee-for-service industry, generally not exposed to commodity price shifts but rather generating moderate revenue through contracts to process and transport natural gas, oil, and petroleum products. This allows them to pay the regular cash distributions that encourage investors to provide capital to the industry.

For this high-capital, moderate-return industry, the benefits of operating as MLPs are many. A variety of associations, analysts and other stakeholders have quantified the benefits to include:

- Continued stable rates of return on both the investment and the appreciation in unit value- eliminating this structure could reduce the investment in pipelines by up to 30 percent, ultimately delaying projects and creating bottlenecks.[8]
- Reduced cost of capital results in cost savings for energy producers which ultimately benefits the American consumer; estimates indicate that consumers alone benefit from $13 billion in reduced energy costs from the MLP structure.[9]
- Creation of high-paying jobs, contact positions an others who support every aspect of MLPs ranging from truck drivers, accountants, field safety personnel and environmental specialist to lawyers and bankers- currently more than 323,000 jobs are supported by MLPs with wages totaling more than $147 billion.[10]

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[3] Wells Fargo – Equity Research, MLP Monthly, September 2014.
[4] Ibid.
[5] Ibid.
[6] ICF International, North American Midstream Infrastructure Through 2035 – Capitalizing on Our Energy Abundance, March 17, 2014.
[7] Ibid.
[8] Phillip Swagel and Robert Carroll, *The Impact of Changes to the Tax Treatment of Master Limited Partnerships*, January 2012.
[9] Ibid.
[10] John F. O'Hare and Judy Xanthopolous, *Midstream Energy Master Limited Partnerships Economic Analysis – Contributions to Employment and Income*, June 2012.

- Increased local, state and federal revenues resulting from severance, property, sales and payroll taxes- a recent survey by the Gas Processors Association indicated that members paid more than $700 million in property and state income taxes in 2012.
- Improved safety and environmental performance through the instillation of new equipment and technology as well as the increased use of natural gas as a fuel source.

Through the use of MLPs to finance energy infrastructure, hundreds of thousand of high-paying jobs are created, improvements in technology assist with the development and continued safe operations of the systems, and local communities benefit through additional economic activity and increased tax revenue.

Conclusion

In conclusion, this in an incredibly exciting time for the energy industry and every person working to support it. MLPs remain a viable, stable and proven structure necessary to continue raising the capital to fuel the build-out of energy infrastructure needed to support the abundant domestic resources that are being produced as a result of new technology, the current economic conditions and the growing demand for energy. The structure also continues to support the historical national infrastructure that serves traditional production. As a side benefit, MLPs allow individual investors to participate in the energy renaissance through a stable, income generating investment.

Not unlike 1981, energy entities are again looking to address the need to raise large amounts of capital to support the prolific development of our domestic energy supplies. The Interstate Natural Gas Association of America estimates that about $14 billion a year or $313 billion in total will be needed in additional infrastructure over the next 20 years to move the energy resources safely and efficiently from the areas of production to American homes, businesses, including the industries who are dependent on energy resources for their products and services. [11]

Twenty-six years ago, Congress examined the question of whether MLPs should continue to be taxed as partnerships or whether all MLPs should have to pay corporate tax. It decided that while MLPs were not appropriate for industries that had historically used corporate structures, the energy industry, which was and is vital to our country's well-being and which had traditionally raised capital through partnerships, should continue to be allowed to expand its access to investor capital through the use of MLPs.

The decision to create MLPs, and ultimately that of Congress to codify the structure, has proven to be a wise one. MLPs have operated as Congress envisioned in 1987 and are now an integral part of the way our nation is positioned to move forward in achieving greater energy security by developing our own domestic energy supplies.

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[11] ICF International, North American Midstream Infrastructure Through 2035 – Capitalizing on Our Energy Abundance, March 17, 2014.