WACHOVIA SECURITIES

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Master Limited Partnerships: A Primer

Key Points

- This report is a quick reference guide to familiarize investors with publicly traded Master Limited Partnerships (MLPs). We have structured this report as a question and answer guide to make it easy to reference specific issues or concepts.

- MLPs are limited partnerships whose interests (limited partner units) are traded on public exchanges just like corporate stock (shares). MLPs consist of a general partner (GP) and limited partners (LPs). The GP (1) manages the partnership, (2) generally has a 2% ownership stake in the partnership, and (3) is eligible to receive an incentive distribution. The LPs (1) provide capital, (2) have no role in the partnership's operations and management, and (3) receive cash distributions.

- Due to its partnership structure, MLPs generally do not pay income taxes. Thus, unlike corporate investors, MLP investors are not subject to double taxation on dividends. LPs typically receive a tax shield equivalent to (in most cases) 80-90% of their cash distributions in a given year. Thus, an investor is typically paying income taxes roughly equal to 10-20% of his/her distribution. The tax-deferred portion of the distribution is not taxable until the unitholder sells the security.

- During the past one and five years (as of November 7, 2003), our MLP composite has delivered total returns of 45.6% and 17.6%, respectively, versus the S&P 500 Index total returns of 18.8% and negative 0.2% and the Dow Jones 15 Utilities Index returns of 13.7% and negative 4.0%, respectively. Year to date, our MLP composite has appreciated 28.6%.

- In our view, MLPs are appropriate for yield-oriented investors seeking current income and modest price appreciation. Our MLP universe has typically been priced to yield in the 6-9% range. Assuming an MLP raises its distribution in the 3-7% range (the estimated distribution growth range for our coverage universe), the expected total return would be in the low double digits.

- Risks to MLP investments underperforming the overall stock market include rising interest rates, ability to access external capital to fund growth, an adverse regulatory environment, terrorist attacks on energy infrastructure, and an overall economic downturn.

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Please see page 12 for rating definitions, disclosure information, and required analyst certifications.

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Introduction

This goal of this quick reference guide is to familiarize investors with the MLP investment vehicle. We have structured this report in a question and answer format to make it easy to reference specific issues or concepts. As always, feel free to call us with any questions.

What Is An MLP?

Master Limited Partnerships (MLPs) are limited partnerships whose interests (limited partner units) are traded on public exchanges just like corporate stock (shares). MLPs consist of a general partner (GP) and limited partners (LPs). The GP (1) manages the partnership, (2) generally has a 2% ownership stake in the partnership, and (3) is eligible to receive an incentive distribution. The LPs (1) provide capital, (2) have no role in the partnership's operations and management, and (3) receive cash distributions.

What Qualifies As An MLP?

To qualify as an MLP, a partnership must receive at least 90% of its income from qualifying sources such as natural resource activities, interest, dividends, real estate rents, income from sale of real property, gain on sale of assets, and income and gain from commodities or commodity futures. Natural resource activities include income exploration, development, mining or production, processing, refining, transportation, storage and marketing of any mineral or natural resource. Currently, most MLPs are involved in energy, timber, or real-estate-related businesses.

How Have MLPs Performed Relative To Other Investments?

During the past one and five years (as of November 7, 2003), our MLP composite has delivered total returns of 45.6% and 17.6%, respectively, versus the S&P 500 Index total returns of 18.8% and negative 0.2% and the Dow Jones 15 Utilities Index returns of 13.7% and negative 4.0%, respectively. Year to date, our MLP composite has appreciated by 28.6%.

What Are The Advantages Of The MLP Structure?

Due to its partnership structure, MLPs generally do not pay income taxes. Thus, unlike corporate investors, MLP investors are not subject to double taxation on dividends. In addition, the elimination of double taxation effectively lowers the partnership's cost of capital. This, in turn, enhances the partnership's competitive position vis-à-vis corporations in the pursuit of expansion projects and acquisitions. For example, the partnership can derive more value than a corporation from an identical acquisition or effectively pay more for acquisitions and realize the same accretion that a corporation could only achieve at a lower purchase price.

Who Pays Taxes?

Because the MLP is a partnership and not a corporation, the partners in the business--the LPs (unitholders) and the GP--are required to pay tax on their allocable share of the partnership's income, gains, losses, and deductions, including accelerated depreciation and amortization deductions. The amount of taxes allocated to each LP is determined by several factors including the LP's percentage ownership in the partnership when the investment was made and price at that time.

What Are The Tax Advantages For The LP Unitholder (The Investor)?

Due to the MLP structure, LPs typically receive a tax shield equivalent to (in most cases) 80-90% of their cash distributions in a given year. Thus, an investor typically pays income taxes roughly equal to 10-20% of his/her distribution. The tax-deferred portion of the distribution is not taxable until the unitholder sells the security. This is how it works:

(1) LP unitholders receive quarterly cash distributions from the partnership each year. Distributions reduce the unitholder's original basis in his/her units. The unitholder pays capital gains taxes as well as ordinary income tax on deferred income when he/she sells the security.

(2) Net income from the partnership is allocated each year to unitholders, who are then required to pay tax on his/her share of allocated net income regardless of whether they receive distributions. In general, distributions are well in excess of any tax liability. However, the unitholder is also allocated a share of the MLP's deductions (such as depreciation and amortization), losses, and tax credits. These deductions often offset a majority of the allocated income, thereby reducing the amount of current taxable income. Taxes are not paid on the portion of allocated income that is shielded by deductions until the investor sells the security. This is the tax-deferral benefit of owning an MLP. When the investor sells the security, there is a recapture of the deductions (depreciation, etc.), meaning the income that was deferred by the deductions becomes taxable income and is taxed as ordinary income.

An investor's tax basis is adjusted downward by distribution and allocation of deductions (such as depreciation) and losses, and upward by the allocation of income. The net effect (i.e., the difference between cash distributions and allocated taxable income) creates a tax deferral for the investor. When the units are sold, a portion of the gain is paid at the capital gains rate and a portion of the gain (resulting from the tax shield created by allocated deductions) is taxed at the ordinary income tax rate.

While this all may seem a bit confusing, the bottom line is this. In a given year, an investor will typically only pay ordinary income tax equal to 10-20% of cash distributions received. The remaining 80-90% is deferred until the investor sells the security.

Investors should consult with a tax advisor concerning their individual tax status.

Example Of Purchase And Sale Mechanics

We provide an example in order to illustrate the mechanics of a purchase and a sale. Assume an individual had purchased 100 units of MLP XYZ for $20 per unit, held the units for three years, and then sold them for $22 per unit. Over this three-year period, MLP XYZ had a yield of 7% (i.e., it paid a distribution of $1.40 per unit in year 1) and grew its distribution at an annual rate of 5%. Also assume that the stock price appreciates in line with the distribution increases, maintaining a 7% yield. Thus, when the distribution is increased 5% in year 2, to $1.47 per unit, the stock price appreciates to $21 ($1.47/.07), maintaining a 7% yield.

When the individual sells the security after three years, the tax consequences would be as follows. In years 1, 2, and 3, assuming the tax-deferral rate is 90%, the investor would have to pay tax on allocable income equivalent to approximately 10% of his/her cash distributions. In year 1, based on 100 units, the investor would pay taxes of roughly $5 ($0.05 per unit), assuming a 35% tax bracket on 10% of $140 (or $1.40 per unit). The investor's tax basis would be reduced by $1.40 per unit in year 1 based on cash distributions received but would also be increased by $0.14 per unit (i.e., the amount of allocated *taxable* income). Thus, the net effect in year 1 would be a reduction of the investor's basis in the security by roughly $126 (or $1.26 per unit).

Assumptions			Year 1		Year 2		Year 3	
			Per Unit	Total	Per Unit	Total	Per Unit	Total
Units	100	Initial Investment	$20	($2,000)				
Purchase Price	$20	Distribution	$1.40	$140.0	$1.47	$147.0	$1.54	$154.4
Annual Distribution	$1.40	Tax Deferred Income (Tax Shield)	$1.26	$126.0	$1.32	$132.3	$1.39	$138.9
Yield Assumption	7%	Taxable Income	$0.14	$14	$0.15	$15	$0.15	$15
Distribution Growth Rate	5%	Current Taxes Paid	$0.049	$4.9	$0.051	$5.1	$0.054	$5.4
Personal Tax Rate	35%	Implied Stock Price	$20.00	$2,000.0	$21.00	$2,100.0	$22.05	$2,205.0
Tax Deferral Rate	90%	Cost Basis	$18.74	$1,874	$17.42	$1,742	$16.03	$1,603

Source: Wachovia Capital Markets, LLC estimates

After three years, the investor's tax basis in the units would be $16.03 per unit.

Tax Implications -- Per LP Unit	Year 1	Year 2	Year 3
Original Basis	$20.00	$18.74	$17.42
MINUS: Cash Distributions	$1.40	$1.47	$1.54
PLUS: Taxable Income	$0.14	$0.15	$0.15
Net Reduction In Cost Basis	$1.26	$1.32	$1.39
Adjusted Basis	**$18.74**	**$17.42**	**$16.03**

Source: Wachovia Capital Markets, LLC estimates

Therefore, when the investor sells the security for $22.05 per unit at the end of year 3, he/she would realize a total gain of approximately $6.00 per unit in addition to having received $4.41 per unit in cash distributions over the three year period. This includes a capital gain of $2.05 (the difference between the selling price of $22.05 and the purchase price of $20.00 per unit) and ordinary income of about $4.00 per unit (the difference between the purchase price of $20.00 per unit and the adjusted cost basis of $16.03 per unit), which is the recapture of depreciation and amortization deductions. Thus, taxes would total $1.70 per unit, consisting of $0.31 capital gains tax and $1.39 of ordinary income. On 100 units, this would be roughly $170. Therefore, on a $2,000 investment over three years, an investor would earn a gross profit of $205 from the sale of the security, pay taxes on allocable net income over three years of $15.45, and pay long-term capital gains and ordinary income taxes totaling $170 at the time of sale. This represents an internal rate of return (IRR) of approximately 8.2%.

Year 3 Tax Consequences	Per Unit	Total
Proceeds From Sale	$22.05	$2,205.0
Cost Basis	$16.03	$1,603
Pretax Gain On Sale	$6.02	$602
Pretax IRR		11.2%
After-Tax Gain On Sale	$4.32	$432
After-Tax IRR		8.2%

Source: Wachovia Capital Markets, LLC estimates
Note: IRR is internal rate of return.

Gain From Capital Appreciation	Per Unit	Total
Capital Gain	$2.05	$205
Taxes On Capital Gain (15%)	$0.31	$31

Gain From Reduction In Basis	Per Unit	Total
Recapture of Tax Shield	$3.97	$397
Taxes On Ordinary Income (35%)	$1.39	$139

What Is The K-1 Statement?

The K-1 form is the statement that an MLP investor receives each year from the partnerships that shows his/her share of the partnership's income, gain, loss, deductions, and credits. It is similar to a Form 1099 received from a corporation. The investor pays tax on the portion of net income allocated to him/her (which is shielded by losses, deductions, and credits) at his/her individual tax rate. If the partnership reports a net loss (after deductions), it is considered a "passive loss" under the tax code and may not be used to offset income from other sources. However, the loss can be carried forward and used to offset future income from the same MLP. K-1 forms are usually distributed in February, and some can be retrieved online.

Who Can Own MLPs?

MLPs have traditionally been owned by retail investors. Institutional investors such as mutual funds cannot own MLPs because distributions and allocated income from partnerships are considered nonqualifying income. Under the current tax code, mutual funds are required to receive 90% of their income from qualifying sources such as interest and dividends. Of note, there is potential legislation in the energy bill that would make MLPs a qualifying source of income for mutual funds, but the passage of such legislation is uncertain.

In addition, tax-exempt investment vehicles such as pension funds generally cannot own MLP units because they generate unrelated business taxable income (UBTI). This means MLP income is considered income earned from business activities unrelated to the pension's tax-exempt purpose. If a tax-exempt investor receives annual income from an MLP in excess of $1,000, the investor would be required to pay tax on its share. In addition to private-client money managers, some hedge funds have recently begun to invest in MLPs on behalf of their individual investor clients.

Who Is An Appropriate Investor In MLPs?

In our view, MLPs are appropriate for yield-oriented investors seeking current income and modest price appreciation. Our MLP universe has typically been priced to yield in the 6-9% range. Assuming an MLP raises its distribution in the 3-7% range (the estimated distribution growth range for our coverage universe), the total return would be in the low double digits.

Can MLPs Be Held In An IRA?

Yes, but income from MLPs and other sources of UBTI should not exceed $1,000 per year in an IRA. As previously explained, income from an MLP is considered UBTI for tax-exempt entities such as an IRA. Therefore, income exceeding $1,000 would be subject to tax. We recommend placing MLP units in traditional brokerage accounts to avoid this issue and to ensure that the investor receives the full tax advantages of the security.

What Are Distributions?

MLPs generally distribute all available cash flow (defined as cash flow from operations less maintenance capital expenditures [capex]) to unitholders in the form of quarterly distributions (similar to dividends).

What Is The Incentive Distribution Agreement?

At inception, MLPs establish agreements between the GP and the LPs that outline the percentage of total cash distributions that are allocated between the GP and LP unitholders. As the GP increases the cash distributions to LPs, the GP receives an increasingly higher percentage of the incremental cash distributions. In most partnerships, this agreement can reach a tier where the GP is receiving 50% of every incremental dollar paid to the LP unitholders. This is known as the 50/50 or "high splits" tier. The theory behind this arrangement is that the GP is motivated to grow the partnership, increase the partnership's cash flow, and raise the quarterly cash distribution to reach higher tiers, which benefits the LP unitholders as well. Several pipeline MLPs are already at the "high splits" level, including Kinder Morgan Energy Partners, GulfTerra Energy Partners, and TEPPCO Partners. (A complete list of energy MLPs with split levels is included at the end of this report.)

Hypothetical Incentive Distribution Arrangement

Below we illustrate a hypothetical split arrangement. In our example, the MLP declares a distribution of $4.00 per LP unit. As outlined in the table below, at tier 1, between $0.00 and $1.00, the LP receives $1.00, which represents 98% of the distribution at that tier. The GP receives 2%, or $0.02 per unit, of that distribution at tier 1. This $0.02 is derived by grossing up the $1.00 distribution to LP unitholders by 98% and then multiplying by 2% ([$1.00/.98] X .02). In other words, the $1.00 received by LP unitholders represents 98% of the total cash distribution paid to partners. This same formula is applied at the subsequent tiers.

Distribution Schedule	LP %	GP %	LP Distribution Up to
Tier 1	98%	2%	$ 1.00
Tier 2	85%	15%	$ 2.00
Tier 3	75%	25%	$ 3.00
Tier 4 (High Splits)	50%	50%	above $3.00

Source: Wachovia Capital Markets, LLC estimates

At tier 2, which is the incremental cash flow above $1.00, up to $2.00, the LP receives $1.00, which represents 85% of the distribution at that tier. The GP receives 15% of the incremental cash flow, which equates to $0.18 per unit. At this level, the LP receives $2.00 per unit and the GP receives $0.20 per unit. In other words, the GP receives approximately 9.1% of the total distribution paid.

At tier 3, which is the incremental cash flow above $2.00, up to $3.00, the LP receives $1.00, which represents 75% of the distribution at that tier. The GP receives 25% of the incremental cash flow, which equates to $0.33 per unit.

At tier 4, which is the incremental cash flow above $3.00, the LP receives $1.00, which represents 50% of the distribution at that tier. The GP receives 50% of the incremental cash flow, which equates to $1.00 per unit.

At the declared distribution of $4.00 in our example, the LP unitholders would receive 72% of the net cash distributions while the GP would receive 28%. As the cash distribution is increased beyond $4.00, the GP would receive 50% of the incremental cash. Thus, if the distribution is increased to $5.00 per limited unit, the formulas for tiers 1-4 would apply and for the incremental $1.00 ($4.00→$5.00), the LP would receive $1.00 and the GP would receive an additional $1.00 as well.

Payment Tiers	Incremental Cash Distributions Per LP Unit	
	LP	GP
Tier 1 ($0.00-$1.00)	$1.00	$0.02
Tier 2 ($1.00-$2.00)	$1.00	$0.18
Tier 3 ($2.00-$3.00)	$1.00	$0.33
Tier 4 (High Splits- >$3.00)	$1.00	$1.00
Total	$4.00	$1.53
% of Total Cash Distribution	72%	28%

Source: Wachovia Capital Markets, LLC estimates

What Is Distributable Cash Flow?

In general, distributable cash flow is defined as the cash flow available to the partnership to pay distributions to LP unitholders and the GP, as defined in the partnership agreement. Most MLPs define distributable cash flow as follows:

Net Income + Depreciation and Amortization - Maintenance Capex

Distributable cash flow can also include other noncash items such as equity income received from affiliates. For purposes of determining cash available to pay common unitholders, we calculate distributable cash flow for common unitholders as distributable cash flow less cash paid to the GP.

What Is The Coverage Ratio And Why Is It So Important?

A partnership's coverage ratio is the ratio of distributable cash flow available to common unitholders to what the partnership actually pays to its common unitholders (distributable cash flow available per common unit divided by distributions declared per unit). The average coverage ratio varies depending on the type of MLP and the risk inherent in the underlying assets of the partnership. For example, propane MLPs whose cash flow stream is more sensitive to weather risk typically carry coverage ratios of 1.2-1.3x. In contrast, most pipeline MLPs have coverage ratios in the 1.0-1.1x range, reflecting the stable, fee-based cash flows that underpin their businesses.

The distribution coverage ratio is significant for two reasons:

(1) Traditionally, investors have considered the coverage ratio to be representative of the cushion that a partnership has in paying its cash distribution. In this context, the higher the ratio, the greater the safety of the distribution.

(2) All else being equal, a higher coverage ratio will give management increased flexibility to raise the distribution.

What Is The Difference Between Maintenance Capex And Growth Capex?

Maintenance capex includes investments a partnership must make in order to sustain its current asset base and cash flow stream. Growth capex is the investment a partnership can make to enhance or expand capacity and increase cash flow. Management typically has some discretion in determining what can be designated maintenance capex versus growth capex.

What About Yield?

From 1998-2002, our MLP universe has had an average yield of 8.7%, ranging from a high of 12.1% to a low of 6.9%. The disparity in yield among MLPs can be explained by several factors including risk profile (financial and operational), growth prospects, and interest rate environment.

Risk profile. MLPs with profiles that are perceived to be riskier (e.g., assets subject to commodity price risk, weather risk, or more variability in cash flow) typically trade at a higher yield in the market as investors require greater return to compensate for the increased risk.

Growth prospects. We believe the disparity in yield can also be partially explained by the growth profile of various MLPs. For example, faster-growing MLPs should command a lower yield because it is assumed that the growth in cash flow would generate increases in distributions that, in turn, would translate into greater appreciation of the underlying security, resulting in a higher total return.

Interest rate. According to our analysis, the movement in interest rate can explain roughly 25-30% of MLP price movements, over the past ten years. Over that time period, the spread between the yield for the ten-year treasury (a proxy for interest rates) and MLP yields has averaged roughly 213 basis points. Thus, in periods of rising interest rates (i.e., when "risk free" money is available at higher rates), MLP yields have tended to increase, in kind. An increase in yield for MLPs implies a decrease in the price of MLPs.

Note: For purposes of the yield calculation, our MLP universe includes AmeriGas Partners, L.P., Buckeye Partners, L.P., Enbridge Energy Partners, L.P., Enterprise Products Partners, L.P., Ferrellgas Partners, L.P., GulfTerra Energy Partners, L.P., Heritage Propane Partners, L.P., Kinder Morgan Energy Partners, L.P., Kaneb Pipe Line Partners, L.P., Magellan Midstream Partners, L.P., Northern Border Partners, L.P., Inergy, L.P., Plains All American Pipeline, L.P., Pacific Energy Partners, L.P., Star Gas Partners, L.P., Suburban Propane Partners, L.P., Sunoco Logistics Partners L.P., TEPPCO Partners, L.P., TC PipeLines, LP, and Valero, LP.

What Are I-Units?

In order to expand the universe of potential investors in MLPs to institutional investors and tax-deferred accounts such as IRAs, an investment vehicle similar to LP units was created known as I-units (the I stands for Institutional). Kinder Morgan was the first to offer i-units with the creation and issuance of Kinder Morgan Management, LLC (KMR), a limited liability company, in May 2001. Currently, the only other i-unit security is Enbridge Energy Partners, L.P. (EEQ).

The i-units are equivalent to MLP units in most aspects, except the payment of distributions is in stock instead of cash. Distributions to i-unit holders are treated similar to stock splits. The cost basis of the initial investment does not change, but rather is spread among more units. One year after purchase, all gains (including the most recent share distribution) are treated as long-term capital gains. Unlike MLP securities, i-units do not require the filing of K-1 statements and do not generate UBTI. Thus, i-units can be owned in an IRA account without penalty. In our view, the i-unit structure is analogous to an automatic dividend-reinvestment plan. Thus, for investors who prefer to reinvest dividends, the i-unit security could be an appropriate investment.

What About The MLPs In The 1980s That Went Bust?

In the 1980s, MLPs were formed that were involved in various businesses including exploration and production (E&P) of oil and natural gas, restaurants, sports teams, and other consumer activities. These businesses were more cyclical in nature, or in the case of E&P companies, had assets that depleted and were therefore not well suited to an entity that essentially distributed all of its cash flow. Without reinvestment, these MLPs were essentially self-liquidating partnerships and were unable to sustain their distributions.

The modern MLP got its start with the Tax Reform Act of 1986. This legislation gave companies an incentive to restructure their companies as publicly traded partnerships in order to take advantage of certain tax shelter benefits. In 1987, the Revenue Act was enacted, which required publicly traded partnerships to earn income from specific sources.

In the 1990s, the MLPs were reincarnated as entities that generally own midstream assets that are used to transport, process, and store natural gas, crude oil, and refined petroleum products and have limited exposure to commodity price risk. These assets were typically spun out of larger entities that could realize a higher value from these assets as publicly traded MLPs. The early MLPs consisted primarily of refined-product pipelines that were characterized as mature assets that required modest maintenance capital and generated significant cash flows that were distributed to unitholders.

Beginning in the late 1990s, MLPs began reorienting their focus toward growth, making significant acquisitions, accelerating their internal growth projects, and aggressively raising distributions. This change in focus was partially due to the sudden availability of midstream assets on the market as majors and large diversified energy players sought to rationalize their assets, by monetizing their mature assets with the intent of redeploying those proceeds into faster-growing entities. MLPs were able to take advantage of their unique tax-exempt structure, which affords them a lower cost of capital, to achieve superior returns compared to corporations.

What Are The Risks?

Distribution growth's dependence on ability to access external capital. Because MLPs pay out virtually all of their cash to unitholders, they must continually access the debt and equity markets to finance growth. If MLPs were unable to access these markets or could not access these markets on favorable terms, this could inhibit long-term distribution growth.

An increase in interest rates. As seen in 1998-99, MLPs have underperformed during periods of rising interest rates. With interest rates currently at all-time lows, we believe an increase in interest rates could adversely affect MLPs' performance in the near term.

An adverse regulatory environment. Many pipelines are regulated by the Federal Energy Regulatory Commission (FERC), which sets tariff rates on these systems. The FERC also hears all tariff disputes arising between pipeline operators and shippers. If the FERC rules against pipeline MLPs or lowers tariff rates, MLPs' cash flow performance over the long term could be adversely affected.

Conflicts of interest with the GP. For certain MLPs, the GP of the partnership and the parent company that owns the GP are controlled and run by the same management teams (examples include KMP and EEP). Thus, some investors have rightfully questioned the independence and legitimacy of the MLP structure and have been reluctant to invest in a security with certain inherent conflicts. Some potential areas of conflict include (1) the price at which the MLP is acquiring assets from the GP, (2) the GP aggressively increasing the distribution to achieve the 50%/50% split level rather than assuming a more conservative growth strategy that ensures the long-term sustainability of the cash distribution, and (3) the potential for management to place the interests of the parent corporation or the GP above the interests of the LP unitholders.

Environmental incidents and terrorism. Many MLPs have assets that have been designated by the Department of Homeland Security as potential terrorist targets, such as pipelines and storage assets. A terrorist attack or environmental incident could disrupt the operations of an MLP, which could negatively affect cash flow and earnings in the near term. In addition, the FERC recently mandated certain pipeline integrity and safety requirements, which should increase operation and maintenance expense over the next several years and reduce earnings. Additional required maintenance expense could lead to further reduction in earnings.

A severe economic downturn. Energy demand is closely linked to overall economic growth. A severe economic downturn could reduce the demand for energy and commodity products, which could cause lower earnings and cash flow.

Acquisitions. Many MLPs have been able to grow cash flow and distributions by making accretive acquisitions. Difficulties in locating attractive acquisition targets or integrating future acquisitions could negatively affect future cash flows.

Execution risk. Many MLPs have been able to grow cash flow and distribution by investing in organic expansion projects. If these projects are not kept within budget and on schedule, future cash flow growth could be affected.

Weather risk. Some MLPs, particularly those involved in the propane industry, are dependent on cold weather for their earnings. Because propane is mostly consumed for heating purposes, some MLPs rely on cold weather to stimulate demand. In addition, some MLPs operate pipelines that transport propane. If an MLP's service territories experience unseasonably warm weather, propane demand, and therefore transportation volumes, could be negatively affected.

Energy-Related Publicly Traded Master Limited Partnerships (Energy)

	MLP Type	Ticker	Mkt Cap ($MM)	Yield	Split Level LP	Split Level GP
Pipeline						
	Atlas Pipeline Partners, L.P.	APL	159	6.8%	98.0%	2.0%
	Buckeye Partners, L.P.	BPL	1,260	5.8%	69.0%	31.0%
	Crosstex Energy, L.P.	XTEX	294	7.1%	77.0%	23.0%
	Enbridge Energy Partners, L.P.	EEP	2,285	7.3%	75.0%	25.0%
	Enbridge Energy Management	EEQ	453	7.9%	75.0%	25.0%
	Enterprise Products Partners, L.P.	EPD	4,307	6.9%	75.8%	24.2%
	Genesis Energy, L.P.	GEL	74	2.3%	NM	NM
	GulfTerra Energy Partners, L.P.	GTM	1,997	7.1%	50.0%	50.0%
	Kaneb Pipe Line Partners, L.P.	KPP	1,401	6.8%	70.0%	30.0%
	Kinder Morgan Energy Partners, L.P.	KMP	8,128	6.1%	50.0%	50.0%
	Kinder Morgan Management	KMR	1,837	6.9%	50.0%	50.0%
	Magellan Midstream Partners, L.P.	MMP	1,374	6.4%	75.0%	25.0%
	Mark West Energy Partners, L.P.	MWE	216	6.8%	75.0%	25.0%
	Martin Midstream Partners, L.P.	MMLP	208	6.9%	98.0%	2.0%
	Northern Border Partners, L.P.	NBP	1,834	7.6%	75.0%	25.0%
	Pacific Energy Partners, L.P.	PPX	566	7.2%	98.0%	2.0%
	Plains All American Pipeline, L.P.	PAA	1,619	7.1%	75.0%	25.0%
	Sunoco Logistics Partners, L.P.	SXL	807	5.8%	85.0%	15.0%
	TEPPCO Partners, L.P.	TPP	2,448	6.7%	50.0%	50.0%
	TC Pipe Lines, L.P.	TCLP	552	6.6%	75.0%	25.0%
	Valero, L.P.	VLI	1,023	6.4%	75.0%	25.0%
Propane						
	AmeriGas Partners, L.P.	APU	1,405	8.2%	98.0%	2.0%
	Ferrellgas Partners, L.P.	FGP	923	8.2%	98.0%	2.0%
	Heritage Propane Partners, L.P.	HPG	651	7.2%	75.0%	25.0%
	Inergy, L.P.	NRGY	385	6.8%	85.0%	15.0%
	Star Gas Partners, L.P.	SGU	739	10.1%	98.0%	2.0%
	Suburban Propane Partners, L.P.	SPH	823	7.8%	85.0%	15.0%
Natural Resource						
	Alliance Resource Partners, L.P.	ARLP	551	6.8%	98.0%	2.0%
	Dorchester Minerals, L.P.	DMLP	483	9.5%	96.0%	4.0%
	Natural Resource Partners, L.P.	NRP	364	6.7%	98.0%	2.0%
	Penn Virginia Resource Partners, L.P.	PVR	588	6.4%	98.0%	2.0%
	Phosphate Resource Partners Limited Partnership	PLP	139	NA	NA	NA
	Terra Nitrogen, L.P.	TNH	94	19.7%	98.0%	2.0%

Source: Coalition of Publicly Traded Partnerships, Factset, company reports

Additional Information Available Upon Request

I certify that:

1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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