Master Limited Partnerships Parity Act

A bipartisan bill to level the playing field by giving investors in renewable-energy projects access to a decades-old corporate structure with a tax advantage now available only to investors in fossil fuel-based energy projects

At a time when the United States needs to increase domestic energy production and leaders of both political parties say they support an "all of the above" energy strategy, Congress should level the playing field and give all sources of domestic energy — renewable and non-renewable alike — a fair shot at success.

The federal government should not be in the business of picking winners and losers in the energy market, but for nearly 30 years, that's exactly what it has been doing with a provision in the tax code that authorizes the formation of master limited partnerships (MLPs). An MLP is a business structure that is taxed as a partnership, but whose ownership interests are traded like corporate stock on a market.

The legislation is a powerful tweak to the federal tax code that could unleash significant private capital into the energy market. It would level the playing field between traditional and new energy businesses by helping energy projects form MLPs, which combine the funding advantages of corporations and the tax advantages of partnerships.

By statute, MLPs have only been available to investors in energy portfolios such as oil, natural gas, coal extraction, and pipeline projects. These projects get access to capital at a lower cost and are more liquid than traditional financing approaches to energy projects, making them highly effective at attracting private investment. Investors in renewable energy projects, however, have been explicitly prevented from forming MLPs, starving a growing portion of America's domestic energy sector of the capital it needs to build and grow.

> "Master limited partnerships carry the fund-raising advantages of a corporation: ownership interests are publicly traded and offer investors the liquidity, limited liability and dividends of classic corporations. With average dividends of just 6 percent, these investment vehicles could substantially reduce the cost of financing renewables."
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> Dan Reicher and Felix Mormann of Stanford University's Steyer-Taylor Center for Energy Policy and Finance, *New York Times*, June 2, 2012

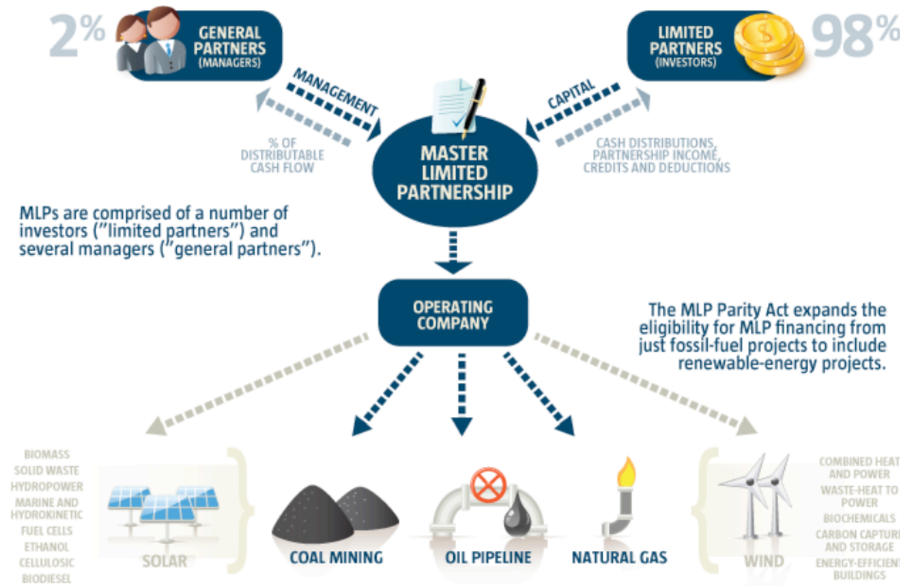
By allowing additional forms of energy to access this market tool, we can go beyond political rhetoric and start delivering an all-of-the-above energy strategy.

How do master limited partnerships work?

An MLP is a business structure that is taxed as a partnership, but whose ownership interests are traded like corporate stock on a market. Whereas profit from publicly traded C corporations is taxed at both the corporate level and the shareholder level, income from MLPs is taxed only at the shareholder level because it is treated as a partnership for tax purposes.

Because MLPs are so attractive to investors, they have been proven to bring new capital into American energy projects. This is especially important in the case of renewable-energy generation, where projects are often dependent on high-interest bank loans and it is harder for investors to see as quick a return as compared to fossil fuel-based energy generation, for which much of the processing and transportation infrastructure was built decades ago. Constructing the same level of critical infrastructure for renewable energy sources will take time and investment, so the *MLP Parity Act* levels the playing field and helps address that problem.

An MLP must generate at least 90 percent of its income from qualified sources, such as real estate or natural resources, including crude oil, natural gas, petroleum products, coal, timber, and other minerals.



How the MLP Parity Act helps

The *MLP Parity Act* simply expands the definition of "qualified" sources to include clean energy resources and infrastructure projects. Specifically included are those energy technologies that qualify under Sections 45 and 48 of the tax code, including wind, closed and open loop biomass, solar, municipal solid waste, hydropower, marine and hydrokinetic, fuel cells, and combined heat and power. It also includes waste-heat-to-power, carbon capture and storage, biochemicals, and energy-efficient buildings. The legislation also allows for a range of transportation fuels to qualify, including cellulosic, biodiesel, and algae-based fuels.

The *MLP Parity Act* does not affect any current MLP entity. All projects currently eligible to structure as MLPs would continue to qualify exactly as they would under existing law. The National Association of Publicly Traded Partnerships estimates there are around 100 MLPs currently being traded on major exchanges, primarily focused on energy-related industries and natural resources. Of the estimated $445 billion in MLP capital currently in the market, approximately $400 billion (close to 90 percent) has gone into qualifying energy and natural resources. Of that, just under 80 percent has gone into midstream oil and gas pipeline projects.

Who has endorsed the MLP Parity Act?

The MLP Parity Act has been endorsed by the American Wind Energy Association, Third Way, Solar Energy Industries Association, Biomass Power Association, Biotechnology Industry Organization, Ocean Renewable Energy Coalition, American Council on Renewable Energy, Natural Resources Defense Council, Advanced Biofuels Association, Offshore Wind Development Coalition, and the Advanced Ethanol Council.

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Learn more at http://coons.senate.gov/mlp