Initial Thoughts on FERC Ruling Impact on MLPs

FERC's ruling earlier today disallowing income tax recovery on interstate pipeline contracts is roiling the sector and we continue to analyze the likely impact. We believe it should only affect pipelines owned by MLPs not corporations. In our funds we maintain MLP exposure at below 25%. This ruling may disadvantage MLPs versus corporate owners, and MLP-only funds are clearly most exposed. This has been an issue for many years and we expect the MLP industry to appeal.

Within the MLPs we own, there are many reasons to expect a limited impact. This does not affect gathering, processing, storage, export, LNG, fractionation or intrastate assets. Furthermore, many interstate contracts are negotiated based on market based rates instead of subject to FERC rates and others have pre-agreed upon terms for adjustments. For example, Energy Transfer Partners' (ETP) assets include intrastate (as distinct from not interstate) pipelines in Texas, which are not affected by FERC's decision today. In other cases, such as ETP's Dakota Access, there seem to be few good alternatives for shippers as there is still insufficient takeaway capacity from the region with some use of crude by rail. Williams Companies (WMB) Transco pipeline network still looks to us like the cheapest way to move natural gas out of the Marcellus. Although MLP Williams Partners (WPZ) owns Transco, they could theoretically combine with parent WMB and house the assets in a corporation.

It's possible this could be another justification to shift energy infrastructure ownership from MLPs to corporations, which is where we are mostly invested. We are not currently making any portfolio changes.

We are invested in Energy Transfer Equity (ETE, General

Partner of ETP), and WMB