Morgan Stanley

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NORTH AMERICA

Midstream Energy MLPs Primer 3.0

Master Limited Partnerships (MLPs): From A to Z

The MLP structure, having reshaped the energy landscape in the past several years, will increasingly be used in the US to own critical energy infrastructure assets. We believe the institutionalization of the industry (p. 21), along with at least a 3-year investment capex backlog (p. 45), are secular tailwinds that will support stock (unit) prices. The distinctive characteristics of MLP investing are hard to match: 1) growth in distribution payouts on an annual basis (MSe of 8-10% on average in 2013-15); 2) attractive upfront yields (6.0% mean in our LP coverage); 3) solid, even if not spectacular, total returns (MSe of 8-12% for next 12) months); 4) lower risk than other industries (average Beta of 0.72); and 5) tax advantages for investors (deferred tax on distribution payouts). This asset class will be supported by a long runway of domestic investment in energy infrastructure (MSe of \$125b over the next 3-4 years). MLP stocks' yield spreads to interest rate alternatives (along with MSe forecast 10-year yield of 2.0-2.5% into 2014) should continue to attract new participation from all segments of the investing community. In this version of our primer, we update our macro view, with a focus on natural gas liquid fundamentals and production economics as emerging resource plays have unlocked significant value-creation opportunities.

Relatively stable distribution payouts in a variety of economic environments. MLPs' core "midstream" (which we define as hydrocarbon handling and transportation) oil and gas pipelines typically use a "tollroad" or "fee-for-service" business model to handle, process, and transport oil, gas, gas liquids, and refined products from the point of production to a distribution point. The barriers to entry are high (e.g., cost to build, regulatory), and these entrenched assets generally have predictable cash flow from volume contracts and somewhat limited commodity price exposure (though it varies).

"Users and Movers" set to benefit as the US moves from being an importer to an exporter. MLPs move product from supply points to demand points and are well positioned. They should continue to benefit from the secular trend of production growth (oil, gas, and NGLs). Stephen J. Maresca, CFA Stephen Maresca@morganstanley.com +1 (1)212 -761-8343

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What Is a Master Limited Partnership?

MLPs are partnerships that trade on public exchanges or markets (e.g., NYSE). For tax efficiency, they are structured as pass-through partnerships, rather than as public corporations; they trade in the form of units (akin to the common stock of C-corporations). MLPs pay no corporate-level taxes, which are instead borne by unitholders (shareholders) at their individual tax rate.

Typically, an MLP's ownership structure consists of a decision-making general partner (GP) and limited partners (LP) that are public unitholders, and could include a sponsor:

- The GP holds a minor equity stake (~2%), but has full management responsibility of the business and owns the incentive distribution rights (IDRs)¹.
- The LPs usually own the remaining interest in the partnership, have no role in daily operations, provide all the capital, receive cash distributions, and have no voting rights.

Exhibit 1

Hypothetical MLP Ownership Structure

Owner of the general partner controls the operations



Source: Morgan Stanley Research

There are variations to this structure, but the end benefits are the same: cash flow generation and distribution to owners. Occasionally, a few MLPs elect to register as limited liability corporations (LLCs). LLCs have members rather than partners, no GP and no IDRs (management has the same membership interests as unitholders), and all members have voting rights. However, LLCs retain their tax advantages, and are able to fulfill the two basic mandates of "normally structured" MLPs: generate cash flow for shareholders and consistent income suitable to be paid out as a distribution.

The tax code limits MLPs' types of income and activities. Broadly, the Tax Reform Act of 1986 and the Revenue Act of 1987 created MLPs. The first act created tax-free, publicly traded partnerships; the second required that these structures generate at least 90% of their income from "qualified sources," such as real estate or natural resources (among a few minor other things). Under section 613 of the federal tax code, qualifying natural resources include crude oil, natural gas, petroleum products, coal, other minerals, timber, and any other "depletable" resource. In 2008, the government added industrial source carbon dioxide, ethanol, biodiesel, and other alternative fuels to the list of "gualified sources." This increases the variety of "MLP-able" assets, and indicates that energy policy changes could incentivize or restrict the creation of MLPs. Qualifying natural resource activities include exploration & production (E&P), mining, gathering & processing (G&P), refining, compression, transportation, storage, marketing, and distribution. However, retail sales (e.g., gas stations, gas utilities) are not qualified activities, except for propane.

Exhibit 2

Similarities and Differences with other Structures Tax advantages are a big plus; tax reporting and lack of voting rights can be a minus

Structure Comparison	MLP	LLC	C-Corp
Non-taxable (at entity level)	Yes	Yes	No
Tax items flow through (to investor)	Yes	Yes	No
Distribution tax shield (to investor)	Yes	Yes	No
Tax reporting	K-1	K-1	1099
General Partner (GP)	Yes	No	No
Incentive Distribution Rights (IDRs)	Yes	No	No
Voting Rights	No	Yes	Yes

Source: Morgan Stanley Research

Most MLPs own and operate assets in the Energy sector.

MLPs have become attractive structures to hold midstream assets, including pipelines, gathering systems, processing and fractionation facilities, storage facilities, and marine transportation assets. Of the roughly 110 publicly traded MLPs, 80% earn income from natural resources. Our coverage focuses primarily on companies in the midstream segment of the energy value chain.

¹ IDRs: Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in some cases upwards of 50% of incremental cash payouts).

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Increasing Number of Non-Traditional Assets Placed into an MLP Structure

As more non-traditional assets try to adopt the MLP structure, some investors are concerned if the non-traditional MLPs will meet expectations for cash flow stability and longterm growth visibility. If non-traditional assets such as chemicals, E&P, rigs, refiners, sand, etc (assets generally not considered midstream) are placed into an MLP structure and their business models lack the proper cash flow stability, they could threaten investors' overall positive view on MLPs. This risk is less pronounced for non-traditional assets committed to stable distribution payout models, but there are variable payout models that carry more risk. To the extent issuers might simply look to use the MLP structure as a gimmick to obtain MLP-level valuation without satisfying the criteria that MLP investors expect, we see potential for abuse and remain wary of the variable payout MLP model. An early but emerging trend has been the adoption of the MLP structure by non-traditional assets. This trend has bifurcated into two distinct approaches:

- · Adoption by non-traditional assets with significant degrees of cash flow volatility. Recent examples include refineries and petrochemical plants. Within this category, sponsors acknowledge the volatility of cash flows and elect not to commit to a stable payout that would prove difficult to maintain when matched against the wide variations in distributable cash flow experienced from one period to the next. Instead, these MLPs opt to pay out a majority of cash flow generated in any given quarter, with potential for distributions to either increase or decrease substantially from one payout to the next. In using the MLP structure, variable payout models aim largely to achieve the benefit of eliminating entity-level taxation, with the resulting valuation step-up reflecting such benefit relative to valuation of comparable assets in a corporate structure but generally not providing any further valuation credit. Given the variable payout strategy, these MLPs have generally struggled to gain widespread traditional MLP investor interest and valuation parity to pipeline-centric MLPs.
- Adoption by non-traditional assets committed to stable distribution payout models. Examples have included proppant (sand) and deepwater drilling rigs. Sponsors here aim for stability in distributable cash flow through levers such as supportive fundamental trends, contract duration (including pricing contracts below market to diminish rollover risk), excess distribution coverage, low balance sheet leverage, and sponsor support (both in terms of liquidity backstop and growth through asset dropdowns). With stable payout models, such MLPs aim to achieve tra-

ditional investor ownership and valuation parity to pipeline MLPs.

Exhibit 3 EV/EBITDA Uplift for MLPs vs. Midstream C-Corps

Significant valuation step-up for traditional midstream assets held within the MLP structure



Variable-payout model carries a high degree of investor risk, in our view. We remain wary of new entrants in the variable payout category and continue to expect such MLPs to trade at sharp discounts to traditional midstream MLPs given their inability to offer the stable distributions that have come to define the industry. The single-asset nature of some of these issues further underscores the risk with this subsector, with considerable risk that distributions could fall well short of expectations. To the extent that new companies might simply look to use the MLP structure as a gimmick to obtain MLP-level valuation without satisfying the criteria that MLP investors expect, we see potential for abuse and remain wary of the variable payout MLP model.

Reasons to be skeptical of stable-payout non-traditional MLPs as well, but the merits will be case-specific. We are also concerned with quality issues for non-traditional stable payout models. Asset quality, strength of contracts and customers, visibility into an industry's competitive land-scape and long-term fundamentals, and management commitment to limited partner (LP) value creation are just a small handful concerns that become magnified (and in certain cases more difficult to diligence) when applied to non-traditional MLPs.

The history of non-traditional MLP segment growth has been relatively limited even with earlier adopters (e.g., upstream E&P, coal), and wide variations in quality exist. Perhaps most importantly, new issuers should be able demonstrate why the MLP structure is appropriate and how it will advance a particular strategy. Sponsors narrowly seeking MLP valuation levels with no clear commitment to distribution

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stability and long-term growth will likely prove to be disappointing investments with poorly defined risk profiles.

HCLP presents an interesting case study. As the first proppant MLP, HCLP's initial public offering in August 2012 signaled both a potential innovative new direction for the MLP structure and possible heightened risk given the opaque nature of that industry. November disclosure that a customer had attempted to terminate a long-term, take-orpay contract served as a clear reminder that non-traditional assets/ industries using the MLP structure will likely require greater degrees of investor due diligence until sponsor track records are more established.

For further growth of non-traditional assets in the MLP structure, practical constraints still exist beyond the statutory considerations. Beyond meeting the qualifying income test required to secure the pass-through tax benefit of the MLP structure, other considerations could still limit the potential of certain non-traditional assets from migrating into the structure. Sponsors looking to revalue non-traditional assets at parity to more traditional pipeline-centric MLPs will likely still need to meet dedicated MLP investors' expectations for cash flow stability and long-term growth visibility (necessary as well to extract value from general partner incentive distribution right structures). Simply warehousing new assets in MLPs might garner some degree of revaluation but ultimately will likely fall short of reaching widespread MLP investor acceptance and prevailing valuation parity.

Nonetheless, the pace of qualifying income private letter rulings (PLRs) issued by the IRS points to further growth in the evolution of energy assets utilizing the MLP structure. Although PLRs may only be relied upon by the taxpayer who receives the ruling (and details regarding the specific identity of the taxpayer are kept confidential), they are nonetheless instructive in providing guidance on how the IRS is interpreting the outer bounds of the qualifying income definition. Over the past year, the pace of qualifying income PLR issuance and the expansive view the IRS has taken in its determinations points to further adoption of the MLP structure outside of core midstream assets. In 2012 alone, 18 PLRs providing qualifying income interpretations were issued. **§7704 of the Internal Revenue Code.** The Qualifying Income Test for MLPs.

"A partnership meets the gross income requirements... for any taxable year if 90 percent or more of the gross income of such partnership for such taxable year consists of qualifying income."

"The term 'qualifying income' means - (A) interest, (B) dividends, (C) real property rents, (D) gain from the sale or other disposition of real property..., (E) income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), (F) any gain from the sale or disposition of a capital asset... held for the production of income... and (G)... income and gains from commodities... or futures, forwards, and options with respect to commodities."

"The term 'mineral or natural resource' means any product of a character with respect to which a deduction for depletion is allowable."

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MLP Parity Act to "Level the Playing Field" for All Energy Sources

The MLP parity act looks to include a number of renewable energies (see table below) to the definition of "qualifying income," so they can form MLPs and benefit from their tax efficient structure and access to capital markets. The bill would amend the Internal Revenue code of 1986, as currently it only includes oil, gas, petroleum products, coal, & other minerals, timber, industrial carbon dioxide, ethanol, and biodiesel. The act was introduced in June 2012 by Senator Christopher Coons, and co-sponsored by 11 senators (including Sen. Murkowski) and three House members across both parties. It was referred to the Committee on Finance in September 2012.

The market could get even more acquainted with the

MLP structure. If enacted, this amendment would not have a direct effect on currently active MLPs. However, continued congress support to the bill reiterates that awareness of the MLP structure now appears widespread as well as acknowledgment of its important role in infrastructure investment, job creation and energy independence. Additionally, it indicates both MLP tax treatment is at much lower risk of alteration than perceived by the market and that expansion of the MLP structure to include renewable energy was a materially higher probability than generally assumed by market participants. Although this decision seems unlikely in a time of tax raises, congress' and influential environmental organizations' support (American Wind Energy Association, Third Way, Solar Energy) suggest higher odds of the bill's approval.

Exhibit 4

Energy Technologies to Be Included If the MLP Parity Act Gets Approved Included in Internal Revenue Code 1986

- Oil, gas, petroleum products
- · Coal and other minerals
- Timber
- Industrial source carbon dioxide*
- Ethanol, biodiesel, and other alternative fuels
- (transportation and storage only)*
- Additions from the MLP Parity Act
 Wind
- Closed And Open Loop Biomass
- Geothermal
- Solar
- Municipal Solid Waste
- Hydropower
- Marine And Hydrokinetic
- Fuel Cells
- Combined Heat & Power
- Cellulosic
- Biodiesel

Algae Based Fuels

*added in 2008 Source: NAPTP, Morgan Stanley Research

MLP Discussion from Sen. Murkowski's

"Energy 20/20" White Paper

Clean Energy Technology

Master Limited Partnerships (p.79)

"Easy and affordable access to capital is critical for any sustainable industry in the free market. Large corporations with established track records, including many energy companies, are able to tap these sources of funds.

The task is much harder for smaller companies with unproven technology and unsteady cash flows. Such can be the plight of renewable energy".

Renewable energy companies, with a few exceptions, are not eligible for the MLP structure. In order to offer MLPs to renewable energy companies, Congress should:

- Consider wholesale reform of the Internal Revenue Code as part of a broader approach to resolve inconsistent tax characteristics within the energy sector.
- Make MLPs more widely available by amending the Internal Revenue Code of 1986 to extend the MLP structure to include biodiesel, biomass, hydropower, solar, wind, and virtually every other kind of alternative energy source, with the exception of nuclear energy."

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Many MLPs have a "toll-road" business model, resulting in cash flow stability. These MLPs receive a fee, or "toll," for handling a customer's product on their infrastructure system. The MLP does not own the commodity, virtually eliminating commodity price exposure and smoothing out its cash flows. Natural gas pipelines receive stable income (essentially rental fees) from pipeline capacity reservations, independent of actual throughput, largely via "ship-or-pay" contracts. Other product pipeline revenues typically depend on throughput, but are protected by inflation escalators that act as a hedge. Other midstream assets have similar fee-based contracts that vary in risk depending on their position in the energy value chain.

MLPs pay quarterly cash distributions, similar to dividends on common stock. While they are not legally required to do so, MLPs typically pay a substantial portion of their cash flow from operations to unitholders in these taxdeferred "distributions." To accomplish this, they usually engage in businesses that provide robust, stable, and predictable cash flows. Investors typically seek partnerships that can grow distributions over time, and an MLP accomplishes this partly by growing its asset base through organic projects, asset purchases from its parent ("dropdowns") or third-party acquisitions.²

Incentive distribution rights (IDRs): pros...IDRs are essentially a performance fee the general partner (GP) earns for growing the limited partner (LP) distribution on a per unit basis. The thought is, if given an incentive fee to grow the per unit distribution to the LP, the more likely the GP will hit the per unit distribution targets and thus the higher IDR to the GP. The typical IDR split structure starts with the GP receiving 2% of the cash distributions. As the LP distribution rises, and the targeted distributions are achieved, IDRs to the GP increase with each increase in distributions (up to in many cases 50%).

...and cons. "High split" IDRs (e.g., the high 50/50 split where the GP gets 50% of incremental cash paid out by the MLP) can stifle the growth of the MLP. In a high splits situation, projects and/or acquisitions will require more cash flow generation to compensate for the higher distribution flows to the GP. Different IDR split structures have a material impact on total distribution paid, specifically to the LP (assuming a static LP distribution).

Exhibit 5

Most MLPs Are Focused on Natural Resources





Source: NAPTP; Morgan Stanley Research

Exhibit 6

Distributable Cash Flow (DCF) Is a Key Metric

Hypothetical simplified example of DCF

Net income	\$	200	
+ Depreciation & amortization		50	
+ Other non-cash items		10	
 Maintanence capex Distributable cash flow (DCF) 	\$	(50) 210	Growth capex
- Distributions to GP and LPs	\sim	(185)	externally
= Free cash flow (FCF)	\$	25	(e.g., 50%
- Growth capex		(225)	equity / 50%
"Funding gap"	\$ <	(200)	← debt)
Source: Company data, Morgan Stanley Research			

Exhibit 7

IDRs Greatly Favor the General Partner (GP) GPs garner a greater share of rising cash payouts and have higher growth rates (off a lower base level)



FQ1 FQ2 FQ3 FQ4 FQ5 FQ6 FQ7 FQ8 FQ9 FQ10 FQ11 FQ12 FQ13 FQ14 FQ15 FQ16 FQ17 FQ18

Source: Morgan Stanley Research

² Dropdowns: As competition for new acquisitions increases and organic projects become more difficult to build, MLPs with a strong parent willing to "drop down" mature midstream assets to them have a clear growth advantage. See the section "How Do MLPs Grow?"

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A conventional way to play the build-out of US energy infrastructure, and an unconventional way to play emerging resource plays. To a certain degree, the tax advantages of MLPs were created in order to foster individuals to invest and build out much needed domestic energy infrastructure. These MLPs are a hard asset play. They build and operate the pipelines (and other infrastructure) in order to get natural gas and crude oil from vast resource pools to high demand areas in a safe and efficient manner. They also provide investors with an alternative avenue to invest in emerging unconventional resource plays (e.g. Marcellus, Eagle Ford, Bakken, Niobrara) rather than taking riskier upstream exposure. As producers develop these shale plays they will require the services from a midstream provider to gather, treat, process, and transport the commodity to end users.

Exhibit 8

MLP Total Returns vs. S&P 500 Total Return

MLPs, as measured by the AMZ, have materially outperformed the S&P 500 over the past decade



Source: Alerian, Thomson, Morgan Stanley Research.

Distinctive structure requires frequent access to capital to fuel growth. Because MLPs pay a substantial portion of their cash flows to investors, they rely on the capital markets to fund growth. Management must convince potential investors of a compelling growth project to secure capital. Thus, the markets typically enforce fiscal responsibility upon MLPs. Assets with predictable cash flows may lend themselves to a more leveraged capital structure (despite the lack of interest tax shields), but MLPs usually target to finance themselves with 50% new debt and 50% new equity to reduce risks, placate rating agencies, and keep a strong balance sheet.

Exhibit 9

MLP Capital Raised by Source, 2004-Present

MLPs are constant issuers of debt and equity to grow their businesses



Source: Thomson, Morgan Stanley Research

MLPs can be a financing tool for corporations (C-Corps) in the broader energy arena. In an increasingly competitive landscape, MLPs must consider all avenues of growth (organic and third party) to grow their asset bases and distributions. C-Corps house a large portion of US midstream energy assets (possibly still 40 - 50%), and can monetize these MLP-eligible assets. In some cases, a C-Corp parent of an MLP may utilize this relationship by relying on the MLP's lower cost of capital to finance future projects. In addition to cash, the MLP parent could receive consideration in the form of additional MLP units. This allows the parent to receive increased cash distributions and continued benefit from the assets in a more tax-efficient entity.

Exhibit 10

Some Examples of C-Corps with MLP Interests Numerous C-Corps have MLP subsidiaries

C-Corp (Ticker)	MLP
Anadarko Petroleum (APC)	WGP / WES
CenterPoint / OGE Energy	Newly Announced
Crosstex Energy Inc (XTXI)	Crosstex Energy. L.P. (XTEX)
DCP Midstream LLC*	DCP Midstream Partners (DPM)
Enbridge Inc. (ENB)	Enbridge Energy Partners (EEP)
EQT Corporation (EQT)	EQT Midstream Partners LP (EQM)
Kinder Morgan Inc. (KMI)	KMP / EPB
Loews Corporation (L)	Boardwalk Pipeline (BWP)
Marathon Petroleum Corp (MPC)	MPLX LP (MPLX)
ONEOK Inc. (OKE)	ONEOK Partners (OKS)
SemGroup Corp (SEMG)	Rose Rock Midstream LP (RRMS)
Spectra Energy Corp. (SE)	Spectra Energy Partners (SEP)
Targa Resources Corp. (TRGP)	Targa Resources Partners (NGLS)
TransCanada Corp. (TRP)	TC PipeLines (TCP)
Williams Co. (WMB)	Williams Partners (WPZ)

Source: Morgan Stanley Research. * DCP Midstream is a 50/50 private joint venture between Spectra Energy Corp. and ConocoPhillips

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Why Invest in MLPs?

Strong total return stocks with a history of outperformance. MLPs offer several investing advantages:

- Historically strong performance in a variety of market environments (typically low correlation with the market),
- distribution stability and high distribution payouts (that are tax deferred), and
- a "growth and emerging asset class" given the fundamental growth story of US energy infrastructure build-out.

Historically Less Correlated with Broader Market

Historically MLPs have performed strongly in a variety of markets. MLPs (as measured by the Alerian MLP Index, AMZ, and Cushing 30 MLP index, MLPX-CME, benchmark indices) have considerably outperformed the broader market over the past 12 years (2001–12). The AMZ has outperformed the S&P 500 nine of twelve times during the period (on a price basis, not including dividends or distributions), and the AMZ has averaged a yearly return of 12.5% compared to - 2.5% for the S&P 500. In aggregate, the AMZ has returned 194% (11.4% CAGR) versus the S&P, which has returned 8% (0.8% CAGR).

Exhibit 11

MLPs Exhibit Strong Total Returns

A frequent winner...

	MLPI	ndices	Energy	Utilities	Market	REIT
	AMZX	MLPXTR	XOI	UTY	S&P 500 (TR)	FTSE-NAREIT
2001	44%	-	-3%	-16%	-12%	16%
2002	-3%	5%	-14%	-22%	-22%	5%
2003	45%	54%	26%	20%	29%	38%
2004	17%	29%	28%	21%	11%	30%
2005	6%	6%	37%	14%	5%	8%
2006	26%	34%	20%	16%	16%	34%
2007	13%	15%	31%	15%	5%	-18%
2008	-37%	-37%	-37%	-30%	-37%	-37%
2009	76%	96%	9%	5%	26%	27%
2010	36%	42%	14%	1%	15%	28%
2011	14%	11%	1%	14%	2%	7%
2012	5%	3%	1%	-5%	16%	20%
Average	20.1%	23.5%	9.4%	2.8%	4.5%	13.3%

Source: Thomson; Morgan Stanley Research. NOTE: AMZX = Alerian MLP index total return, MLPXTR = Cushing 30 MLP index total return, XOI = energy index, UTY = utility index

On a total return basis, the AMZ total return index (AMZX) has outperformed the S&P 500 total return index every year over the past decade, except for 2012 . MLPs posted a +5% total return, failing to keep pace with the S&P 500's +16% total return. The AMZX has returned an average 20.1% compared to 4.5% for the S&P 500 TR. In aggregate, the AMZX has returned 539% (20.4% CAGR) versus the S&P500 TR, which has returned 36% (3.1% CAGR). We expect steady long-term positive performance to continue, albeit at a less pronounced clip. We believe MLPs will continue to perform well longer term given increased demand for US infrastructure needs as natural gas production continues to shift towards unconventional resource plays. We continue to believe the asset class remains growing based on market capitalizations, liquidity, and the fundamental supply underpinnings driving these securities remain.

Exhibit 12

MLPs Return Cash to Shareholders

We believe new committed infrastructure projects will keep growth steady through 2015



Exhibit 13

A Lower Beta Industry (chart 1)

Stocks with more commodity sensitivity are higher beta

	Beta to	the Market (S	&P 500)
	1-Yr	3-Yr	5-Yr
MLPs			
Large-cap	0.77	0.57	0.82
Gas pipes	0.57	0.43	0.60
Refined products	0.93	0.58	0.80
Gath & Process	1.03	0.80	1.24
Shipping	1.28	1.02	1.24
Coal	1.31	0.89	0.96
Average	0.98	0.72	0.94
E&P	1.79	1.49	1.45
Oil services	1.36	1.50	1.66
Utilities	0.43	0.53	0.52
Integrated oil	1.52	1.30	1.19
REIT	0.90	1.10	1.33

Source: Company data; Morgan Stanley Research

MLPs generally have shown little correlation with the broader market. Relative to other securities, MLPs have historically exhibited very little correlation with the broader market. We believe this is due to their stable and somewhat predictable revenue streams, which make them independent of

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Exhibit 14

A Lower Beta Industry (chart 2)

MLPs have a lower risk profile than other sectors



Source: Company data; Morgan Stanley Research

fluctuations in the broader market. Historically, MLPs have had a mild 45% correlation with the S&P 500. However, the correlation increased substantially following the Lehman bankruptcy in late 2008. The correlation between the AMZ and S&P 500 currently stands around 50%, which we attribute mainly to market uncertainty. Long term, we believe the correlation will return to a more normalized level as MLPs display their earnings and growth potential, independent of broader market movement.

Exhibit 15





Source: Thomson; Morgan Stanley Research

The correlation between the MLP yields and 10-year Treasury yields has greatly diminished. A decline in correlation with the 10-year Treasury has affirmed a shift towards viewing MLPs as a total return vehicle, in our view. In the past, many viewed MLPs as a fixed income substitute and therefore used the 10-year Treasury as the benchmark against MLP yields. Moves by the Federal Reserve to hold interest rates low have also driven the recent decoupling. Historically, the 52-week rolling correlation between the AMZ yield and 10-year Treasury has averaged around 13%, even reaching 30% at its peak. The correlation currently stands at around -9%.

With clarity provided by the Fed for exceptionally low fed funds levels through at least mid-2015, we believe the yield trade should continue to propel MLPs higher. Given scarcity of yield alternatives in the current low interest rate environment and continued global economic uncertainty, we expect MLPs to see a renewed bid as investors gravitate to the sector's relative stability and secular cash flow growth story - one largely uncorrelated to macroeconomic conditions. Although P/DCF and EV/EBITDA multiples screen slightly above historical averages, we believe attractive yields will be the overriding investment consideration in this environment and expect wide MLP distribution yield spreads to interest rate benchmarks to attract significant capital inflows. Moreover, low interest rates are highly accommodative of large capital funding needs required for MLPs to satisfy midstream infrastructure investment required over the coming decades. Exhibit 16

MLP Yields and 10-Year Treasury Yield Correlation "QE" a major factor in weakening correlation trend



Source: Alerian, Thomson; Morgan Stanley Research

Correlations with corporate bonds have increased, and represent a better valuation proxy. Historically, the yield between MLPs and Baa corporate bonds has averaged around 0% on a 52-week rolling basis. However, the correlation has become somewhat negatively correlated over the last few years at -40% to -30%.

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Exhibit 17

MLP Yields and Baa Corporate Bonds Correlation

A "better" proxy than the 10-year, but still not great



Source: Alerian, Thomson; Morgan Stanley Research

We believe the correlation is due to two factors:

- First, we saw a re-pricing of risk following the financial crisis in 2008; investors began to view MLPs as having similar risk profiles to its corporate counterparts.
- Second, the spread between the AMZ yield and 10-year was extraordinary wide in part to low interest rates, pushing investors to see the AMZ/Baa yield spread as a more appropriate proxy.

While MLP unit prices do respond negatively to the onset of rising interest rate cycles, the impact is short term. Although long-term MLP yield correlation with the 10-year Treasury is low, the negative impact of rising Treasury yields for MLPs is mostly around the immediate rising interest rate cycle. Historically, MLP yields (Morgan Stanley coverage estimate) have traded at an average premium of 348 bps to Treasuries, falling to 243 bps if we exclude post-credit crisis data. Assuming that the spread returns to its historical average, MLPs should have a buffer when treasuries rise. Additionally, their distribution growth should further insulate MLPs from interest rate risk. Analyzing six prior periods of rising Treasury yields led to an average peak to trough fall of -12.7%, yet in half of these periods MLPs generated positive price returns over the period in question. As the markets become more acquainted with the fundamentals of MLPs, we expect this impact to diminish more over time.

Exhibit 18

MLPs Have Varying Outcomes When 10-Year Yields Are Rising

Depends on why rates rose and where valuations stand

Start Date	End Date	MLPS Spread to 10-Yr at Start Date	Rise in 10-Yr Yield	% change in AMZ index
		(bps)	(bps)	
10/5/98	1/21/00	169	263	-9.1%
11/7/01	4/1/02	311	123	-4.5%
6/13/03	9/2/03	392	150	0.8%
3/16/04	5/13/04	273	117	-10.6%
6/2/05	6/28/06	232	136	0.3%
3/31/08	6/16/08	384	86	6.1%
12/31/08	4/19/10	1526	174	76.9%

Source: Company data; Morgan Stanley Research

MLPs usually have limited commodity price exposure relative to other energy sectors. Unlike most energy equity investments, MLPs offer investors energy infrastructure exposure with limited commodity price volatility. Through "tollroad" business models, MLPs can reduce correlations with the rest of the Energy sector and dampen the impact of commodity price fluctuations. We believe this explains the low average correlation of MLPs with natural gas and crude oil price changes.

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Exhibit 19 AMZ Exhibits Lower Correlation with Nat Gas Prices



Source: Morgan Stanley Research

Exhibit 20

AMZ Exhibits Higher Correlation with Oil Prices



Source: Morgan Stanley Research

Because MLPs rarely take title to the commodity, volumes influence their businesses more than prices. In some cases, with "take-or-pay" contracts (used by most longhaul natural gas pipeline MLPs), the actual amount of pipeline throughput is immaterial because rates are predicated on reserved pipeline capacity. Businesses more exposed to prices, including E&P and G&P, often hedge 70%+ of their exposure to curb commodity price risk. However, lower commodity prices for an extended period may indirectly affect MLP performance. If prices remain depressed over longer time horizons, we could see a reduction in rig count, and thus a reduction in production. For MLPs, this could translate to volumetric risks, reducing throughput on gathering systems and long-haul pipelines, and ultimately affecting cash flow. Despite this risk and the current overabundance of natural gas, supply responses have not been material because current well economics continue to incentivize producers. Still, while we believe some MLPs might continue or seek to follow a riskier operating strategy by evolving into more commodity sensitive businesses, we also believe that MLPs as asset class will continue to exhibit muted correlation with commodity prices.

Stable Cash Flow and Distribution Growth

High barriers to entry support MLPs' stable cash flow and distribution growth. Their tax efficiency and robust business models allow MLPs to pay out a significant portion of available cash flow to investors, though they are not legally bound to do so. MLPs' infrastructure investments possess competitive advantages from high barriers to entry due to cost of investment and near natural monopolies in some regions. Regulations also come into play here, helping shape a more stable environment for MLPs. The Federal Energy Regulatory Commission (FERC) closely regulates these assets, while protecting rights of way and providing attractive rates of return. Additionally, the FERC indexes a tariff to inflation and in some cases establishes a cost of service basis or allows a market-based tariff.

MLPs provide tax-efficient income plus growth. We view MLPs as total return vehicles given their high tax-deferred income and visible and persistent distribution growth (investors do not pay taxes when they receive quarterly distributions, rather they are taxed when they ultimately sell). On average, the AMZ yielded 6.9% over the past decade. This coupled with average distribution growth between 5–7% has positioned MLPs to provide low-to-mid-double digit annual distribution growth. We believe this trend will continue given the increased demand for additional midstream energy infrastructure.



Current Yields 7.0% 6.0% 5.0% 4.0% 3.0% 2.0% 1.0% 0.0% MS MLP HY Baa REIT Utility 10-Year Bonds Bonds Cova



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Emerging Asset Class

MLPs still have room to evolve, grow. Since the late 1980s, MLPs have seen a sharp rise in market cap and trading liquidity, currently exceeding ~\$480 billion in market cap. We see a strong likelihood of this trajectory continuing as additional IPOs, acquisitions and growth projects are completed, and as the industry continues to attract more inflows (e.g., closed-end funds, open-end funds, exchange traded notes, exchange traded funds, etc.). Additionally, natural gas supply shifts, and new midstream infrastructure, will also be drivers of growth.

Exhibit 22

Distribution Growth Component Outpaces Others *MLP distributions offer more stability and higher growth*



Source: Alerian, NaREIT, Thomson Reuters; Morgan Stanley Research

MLPs can serve as a defensive asset class within a turbulent market, but also a solid 10–15% total return story in the longer-run. MLPs are structurally counter-cyclical due to their high barriers to entry, toll-road business models, feebased revenue, and federal rate protection. These business models make MLPs fundamentally stable in volatile times. However, post the financial crisis, MLPs have traded at elevated correlations with the market (currently ~50%). This shows that despite their defensive characteristics, MLPs are still susceptible to broader market moves. As the defensive nature of MLPs become more widely known and as uncertainty in the broader market subsides, we expect this correlation could converge closer to the historical average of 45%.

Exhibit 23

Trading Liquidity Has Improved Significantly





Source: Thomson Reuters; Morgan Stanley Research

Still, given their capital market dependence, MLPs remain mildly vulnerable to tight equity and credit markets. Particularly because of their distribution model, MLPs rely on the capital markets to fund new projects or acquisitions. While we believe this model works well, we also note that any disruption in capital markets could pose headwinds. For instance, under a scenario of tighter capital markets, we could see riskier MLP business models (e.g., E&Ps and G&Ps) to experience a harder time accessing capital markets.

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Emerging Issues

Carried interest legislation not likely to impact MLPs

The spirit of this legislation focuses on investment management companies that have opted to structure themselves as partnerships to receive the lower 15% tax on carried interest. The tax status of MLPs exist to spur investment in infrastructure and not germane to the spirit any potential legislation. Secondly, MLPs are a small industry where the adjusting the tax treatment would do little to influence America's fiscal situation. We do not see any like adverse impact of potential carried interest legislation in this space.

Rise of Institutional inflows and new vehicles

In 2010, we saw a surge of institutional capital into the MLP universe resulting in a broader range of investors. With the advent of these new products (more specifically ETFs and mutual funds), we expect to see further institutional participation (e.g., pensions). See p. 23-24 for more details.

Natural Gas Legislation looks to be a strong net positive

The wide perception is that natural gas could be a bridge fuel to energy efficiency and less carbon emissions. However, hydraulic fracking of emerging shale plays has met scrutiny due to concerns about the fluids used or the gas itself adulterating water supply. Despite this, we expect that future legislation can add to a bull-case scenario for natural gas demand beyond the expected shifts in natural gas supply. There has been discussion of increased use in natural gas as fuel for cars for example. In 2008 the Energy Improvement and Extension Act expanded the definition of "qualifying income" for MLPs to include:

- · Alcohol fuel mixtures and biodiesel mixtures
- · Alternative fuels, including LPGs and LNGs
- Alternative fuel mixtures
- Biodiesel

We believe this illustrates a greater focus on the space and an increased potential for favorable legislation as energy policy comes more into focus.

Overbuilding not expected to be a problem in the near future

An often-considered question is the issue of overbuilding with scramble to provide infrastructure new energy plays. In the near this appears unfounded because MLPs do not build on speculation, but due to presubscription of the pipelines they build. MLP typically expect a potential pipeline to lock in at least 70% of its capacity in contracts before construction commences. Therefore overbuilding will not be an issue until down the line if production wanes or customers default. We do not expect these issues in the near term.

Increased competition for assets continues to drive up acquisition multiples

As competition for asset packages increases and prices rise, buyers will find it more challenging to simply aggregate disparate assets using the MLP cost of capital advantage and earn attractive return spreads, in our view. Operating synergies that drive increased market share in a particular geography or enhanced vertical integration and service bundling will likely become increasingly important to support acquisition multiples beyond assumed organic growth on the acquired assets. MLPs with attractive existing footprints will likely turn more toward internal, long-term growth investment to find more favorable returns.

As a result, organic sources of growth are becoming more important. MLPs with strong existing footprints will likely turn more toward internal, long-term growth investment to find more favorable returns. The implication of this trend is that location and existing service capabilities will matter greatly as it relates to an MLP's potential growth opportunity set. APL/ATLS, EPD, MWE, NGLS, OKS, and WPZ, in particular, have differentiated themselves through strong organic growth strategies. With INGAA projecting \$205b of new capital investment in natural gas infrastructure (\$8b annually) needed over the next 25 years to accommodate growing supply from emerging shale plays and increased demand, we see these MLPs as particularly well positioned to win new projects.

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Exhibit 24

Midstream Energy Acquisition Mult. (EV/EBITDA) Several recent data points suggest acquisition multiples are trending higher still



Source: Company Data, Morgan Stanley Research

Crude by rail to close pipeline capacity gap, not replace them

As rising crude oil production volumes are exceeding pipeline takeaway capacity in some areas, railroads have stepped up as a solution to bottlenecks. As a result, rail has grown materially over the last few years and can grow again over the next 3-5 years before reaching a plateau (we expect production to reach ~2.1MMB/d by 2016). In addition to servicing the gap, railroads' optionality in terms of contract durations (1-5 yrs) and access to different markets has a proven attractiveness. Although rail transportation can be more expensive than pipelines on the same route, rails are less capital intensive and can cut through areas where it would be extremely difficult to get a pipeline permitted or areas where building a pipeline is impractical. We expect rail to be part of the long-term infrastructure solution for many regions. However, we see rail supplementing pipelines (where new projects do not make sense) rather than replacing them. Substantial crude pipeline infrastructure is still needed (see our Feb 21 note *Crude By Rail, Here To Stay... And Growing*).

Exhibit 25

Pipeline vs. Rail

Rails Don't Face the Political & Permitting Challenges of Pipelines

	Pipe	Rail
Environmental	\checkmark	×
Derreitting Challenge		4
Permitting Challenge	✓	×
Construction Cost	\$\$\$\$	\$
Long-term Contract	\checkmark	×
Operating Economics	\$	\$\$\$\$
	-	+ + + +

Source: Morgan Stanley Research

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How Real Is the Risk of Tax Reform to MLPs

Framing the issues on tax reform as they relate to MLPs. Tax considerations impacting MLPs that either have or could potentially manifest themselves in tax reform discussions focus on three areas: 1) higher personal income tax rates on dividends, 2) a 3.8% surtax on investment income, 3) elimination of pass-through tax treatment through imposition of corporate tax on such entities.

- 1. Dividend tax treatment changes do not directly impact MLPs, but nonetheless help improve the relative attractiveness of MLP after-tax yields. Cash payouts made by MLPs to investors are characterized as distributions and treated as return of capital (to the extent one's adjusted outside basis in the partnership is above zero) and not subject to tax liability in the year received until units are sold or an investor's basis reaches zero. As a result, higher dividend tax rates have no impact on MLP tax treatment, but do indirectly serve to make MLP tax distributions incrementally more attractive relative to corporate dividends on an after-tax basis. Moreover, to the extent corporations now elect to divert incremental cash away from dividend increases in favor of share buybacks or other forms of cash redeployment, distribution growth at MLPs could further enhance the marginal relative attractiveness of the asset class.
- 2. Investment surtax applies to MLPs, but impact is modest. Ordinary income allocated to MLP investors each year constitutes passive income subject to the surtax. However, significant non-cash charges such as depreciation (arising from both accelerated depreciation of assets and depreciation of the Sec. 754 election inside-outside basis reconciliation step-up made when an investor enters the position) netted against gross income tend to leave only small amounts of allocated income relative to cash distributions. Moreover, dividends and interest income are also subject to the surcharge, making the negative impact on alternative yield investments more pronounced.
- 3. Imposition of corporate income tax on MLPs is by far the largest tax-related issue, but also a very low probability event. By far, the largest potential impact on MLPs related to tax changes centers on elimination of the passthrough entity-level tax status of MLPs. Given that MLPs are rarely mentioned specifically in public tax reform debate, a hypothetical scenario under which this would occur would likely require comprehensive, bipartisan tax reform legislation that would include in it a prevision to impose corporate income tax to all pass-through entities beyond a

certain gross receipts threshold (so as to minimize the impact on small businesses) as part of a broader overhaul of the tax code aimed at both simplification and broadening of the tax base. Any such proposal would likely have overarching objective to identify new revenue to account for reductions in corporate income tax rates while remaining deficit neutral (each percentage point reduction in the corporate tax rate will cost the federal government \$125b in lost revenue). Pass through entities include partnerships, S-corps and limited liability companies (MLPs are publicly traded partnerships, a structure that allows for both public capital market access and pass-through tax treatment).

To be clear, we view such an event as highly unlikely for several reasons (detailed below), but nonetheless acknowledge the headline risk associated with broader public discussions on tax reform, even if MLPs are not mentioned specifically. Given that corporate taxation of MLPs would likely result in reductions to cash distributions and sharp downward selling pressure (potentially more than proportionate with imposition of the statutory corporate tax rate as MLPs trade at significant premiums over comparable assets in corporate structures owing not just to their higher cash flows without entity level tax but also to the growth opportunity that arises from this tax advantage), it is not that cognizance of this risk is misplaced but rather that fear of its likelihood far exceeds its practical probability of happening.

Exhibit 26

MLP vs. C-Corp. After-Tax Dividend Yields

Tax-deferred nature of MLP distributions an important benefit

MLP Unit	
Stock price	\$20.00
Annual cash distribution	\$1.20
Estimated ratio of taxable income to cash distributions	10%
Highest marginal personal income tax bracket	39.6%
After-tax effective distribution	\$1.15
Pre-tax distribution trading yield	6.0%
After-tax, net effective yield (year 1 only)	5.8%
C-corp Common Stock Share	
Stock price	\$20.00
Annual dividend	\$0.70
Dividend tax rate	20%
After-tax dividend	\$0.56
Pre-tax dividend trading yield	3.5%
After-tax, net effective yield (year 1 only)	2.8%
MLP pre-tax yield spread to C-corp (bps)	250
MLP post-tax yield spread to C-corp (bps)	296

MLP post-tax yield spread to C-corp (bps) Source: Company Data, Morgan Stanley Research

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We strongly believe alterations to MLP tax treatment remain an unlikely event for several reasons:

- A critical structure to encourage midstream energy infrastructure investment and job creation. MLPs serve a designated, well-defined purpose subject to clear limitations on the types of income that can be derived within the structure, an important distinction that cannot reasonably be argued to be a tax loophole. The MLP structure has worked extremely well in serving its express purpose – to incentivize private sector investment in needed pipeline and storage infrastructure – since its creation in 1986 while also serving as an engine for domestic job creation in an uncertain economic climate. In order to meet our domestic needs for new midstream infrastructure to support emerging unconventional oil and gas domestic supply patterns and other logistical trends, MLPs will be necessary to drive this investment.
- Midstream investment would likely be significantly less attractive without structure's benefits. Such investment would be reasonably expected to slow as aftertax returns on regulated pipelines would narrow relative to cost of capital. Without incentive for energy companies to invest heavily in relatively mature, comparatively lower IRR assets, the US will likely revisit pre-MLP concerns related to aging and insufficient midstream infrastructure resulting from underinvestment. Within larger energy corporate structures, as opposed to dedicated pass-through vehicles, these assets will tend to be viewed as cost centers and starved for capital. At a minimum, while pipeline project development will continue (just as it had prior to the creation of the MLP structure), it is highly likely that it will be carried out in inefficient ways by producers or endusers focused narrowly internal needs rather than by pureplay midstream corporations aggressively looking to provide optimal market solutions.
- Aging pipeline infrastructure further supports the need for incentivized investment and heightens the risk of not doing so. Pipeline incidents in recent years with varying degrees of human fatalities and environmental damage have placed a spotlight on the aging of existing domestic midstream infrastructure. The risk in making a policy decision that slows investment in updating and improving existing infrastructure, much less building new infrastructure, is that the frequency and severity of such incidents could increase.
- Small potential contribution to the federal tax base. Despite the growth of the MLP structure, the equity market

capitalization of MLPs in aggregate is still approximately that of XOM alone, suggesting the actual revenue benefit to the federal government from corporate taxation of MLPs would be quite small relative to other potential considerations. New tax revenue from corporate taxation of MLPs would be further diminished after accounting for large deprecation and interest expense tax shields. In a study prepared for the Joint Committee on Taxation in early 2013 calculating federal tax expenditures, it was estimated that publicly traded partnerships constituted \$1.1b of foregone tax revenue, which is not material in the context of broader tax reform discussions.

Exhibit 27

Tax Expenditure Estimates by Budget Function Minimal tax revenue impact from MLP structure

in US\$ billions	2012	2013	2014	2015	2016	2017	Total
Exceptions for publicly traded partnership with qualified income derived from certain energy-related activities	\$1.1	\$1.2	\$1.2	\$1.4	\$1.4	\$1.5	\$6.7
Treatment of income from exploration and mining of natural resources as qualifying income under the publicly-traded partnership rules	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.8

Source: Joint Committee on Taxation

- Active MLP lobbying effort. The National Association of Publicly Traded Partnerships (NAPTP) maintains regular discussion with legislators to communicate the purpose and necessity of the structure. In that context, it would be difficult to see legislation pass without specific discussion of whether MLPs should be included, a politically difficult argument to support given MLPs importance to infrastructure development and job creation. Either way, broad legislative efforts will likely prove challenging in the current partisan climate.
- Precedence for ongoing support of publicly traded pass through entities with a specific purpose. Congress established US real estate investment trusts (REITs) in 1960, repeatedly reaffirming their importance since then. Notably, the Treasury proposal specifically excludes REITs from corporate tax treatment, preserving the pass through nature of the structure given widespread appreciation of the need for REITs. We view this positively as we believe an equally compelling argument can be constructed for exempting MLPs as well.

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- · An effective policy tool that could conceivably be expanded. Rather than eliminate the MLP structure, a more defensible possibility is that MLPs increasingly become viewed as a tool to stimulate investment in the development of sustainable energy sources. In 2008, for example, Congressional legislation expanded the qualifying income definition for the first time since 1987 to include ethanol, biodiesel and other alternative fuels transportation and storage as well as industrial carbon dioxide. Further expansion could be considered at some point as means to advance specific policy objectives. In fact, Sen. Chris Coons attempted to do just that with his introduction last year of the Master Limited Partnerships Parity Act, a bill intended to include renewable energy (wind, biomass, geothermal, solar, hydropower, fuel cells, etc.) as qualified income sources for the structure.
- Bipartisan appreciation of MLPs from legislators. Conversations with staff and public discussion from both the Senate Finance Committee House Ways and Means Committee – together the two bodies charged with writing tax policy – suggest both an appreciation for the rationale behind the MLP structure and the lack of any particular inclination to specifically target MLPs. The words and actions of these two committees will be far more important than a proposal from the President, who does not hold a seat on this Joint Committee on Taxation.
- Should the Treasury Department address tax reform, as was speculated last year, it is important to note that a significant difference exists between Treasury proposals, viewed to a certain extent as academic studies, and actual legislation originated out of Congress. Treasury proposals do not carry any legislative rulemaking authority but rather help to define the President's position. Generally, there is not a strong relationship between Treasury proposals and enacted legislation and, in any event, a significant number of hearings and debate in Congress will ensue before any meaningful tax reform approach becomes clear.

Revisiting the "Halloween Massacre" The Canadian Income Trust Example

One commonly cited example of tax treatment risk is the case of Canadian income trusts. Similar to MLPs, income trusts in Canada were pass-through entities not subject to entity-level tax that offered high cash dividends, oftentimes 10-15% annual yields (unlike MLPs, however, income trusts had payout requirements). Income trusts consist of three types of publicly traded structures – royalty trusts (typically oil and natural gas wells), REITS and business income trusts.

An eroding tax base prompts the Canadian government to act. On October 31, 2006, the Canadian Department of Finance proposed imposing full corporate tax on all royalty and business income trusts (31.5% statutory rate by January 1, 2011, with a four-year grace period for existing trusts), removing their tax advantage in an effort to recover the up to \$1 billion in estimated lost annual revenue that had resulted from the conversion of corporations to trusts. Income trusts had grown from 70 listed trusts with aggregate market capitalization of \$14 billion in 2001 to 245 trusts with \$210 billion market cap by October 2006 (in 2002, 94% of all initial public offerings by market value were income trusts). By the time the Tax Fairness Act was announced, income trusts had included not only intended oil and gas properties but also a more far-ranging assortment of businesses. The increasing erosion of Canada's corporate tax base had reached a tipping point with announcements from large-cap Canadian telecom companies of their intentions to covert into trusts, potentially costing the Canadian government an additional \$300m in lost revenue, as well as suggestions from a large Canadian bank that it might consider the structure for itself. Of note, Canadian REITs were not included in the tax change and were able to maintain their status.

Stock response. In what was called the "Halloween Massacre," income trusts sold off sharply in response to the surprise government proposal. The S&P/Toronto Stock Exchange Income Trust Index fell 16.2% in the two days following the news. After an extended period of adjustment, the index recovered to pre-announcement levels by mid-2008 as valuation determinations were predicated as much on underlying fundamentals as the new tax regime.

Canadian income trusts today. In response to the legislation, income trusts largely converted to corporate form, with many also having to cut their dividend payments. Takeovers became prevalent. The companies that remain are largely REITs. Importantly, however, the economic value of underlying businesses affected by the change remains relevant even if diminished by less favorable tax treatment.

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Canadian income trust example is a poor parallel to

MLPs. The Canadian government's decision to impose corporate income tax on income trusts was largely a function of clear and blatant exploitation of the tax code by businesses not intended to have access to this structure: the same argument cannot be made for MLPs, which are almost entirely comprised of natural resource-derived income sources (private equity and other financial firms being a notable exception that could be specifically addressed). Under §7704 of the Internal Revenue Code, established one year after the creation of MLPs by Congress in 1987, companies that wish to adopt the MLP structure and utilize the benefit of not incurring corporate income tax are required to derive at least 90% of their income from gualifying sources, largely related to natural resources activities. As such, Congress has already taken legislative steps to expressly limit the use of the MLP structure to a very specific purpose, a key point of differentiation relative to Canadian income trusts, which were not subject to such limitations and were widely misused by companies not intended for the structure. Moreover, the revenue to be gained from corporate taxation of income trusts was a much greater proportionate contributor to Canada's tax base

than what an effort to tax MLPs would yield in the US. Income trusts were prominently on the Canadian government's radar screen while MLPs do not share anywhere near that level of focus in the public discourse.

Exhibit 28

S&P/Toronto Stock Exchange Income Trust Index Sharp decline following tax announcement



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MLP Tax Environment

A favorable tax regime. The Internal Revenue Service considers MLPs a pass-through entity; and views MLPs as partnerships (as opposed to corporations), which are not taxed at the corporate level. *Morgan Stanley does not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under US federal tax laws.*

Direct investment in MLPs leads to a unique tax treat-

ment. The distributions a unitholder receives from an MLP is 100% tax deferred. Instead, the investor pays tax on allocated share of net taxable income (net income adjusted for gains and deductions). This is the case whether or not the MLP pays distributions. The net taxable income is typically a smaller portion than the distribution (usually 10-20%), explaining why some say MLP distributions are 80-90% tax deferred.

A bit of a paperwork burden: direct MLP investors must complete the K-1 tax form. In lieu of a 1099 form, MLP investors receive a K-1. The K-1 contains information regarding the unitholder's allocated share of the partnerships net income, gain, loss, and deductions. Additionally, and depending on the assets location or business operation of the MLP, an investor may also have to file income tax returns in other states and localities.

Distributions are tax-deferred until the units are sold.

There are two main reasons that trigger the end of the taxdeferred status of the distributions. 1) Monetization – once the investor sells his/her units, the deferred portion of the distributions become taxed at their personal income rate (capital gains above the purchase price are taxed that the capital gains tax rate); 2) Basis reaches zero – every year the portion of the distributions that the net income allocation does not offset, go towards decreasing the original cost basis of the investment. If the sum of these offsets increases beyond the original purchase price of the units, then the future distributions lose their tax-deferred status. However, MLPs are a unique estate-planning tool for tax-efficient wealth transfer. When an heir receives the units, the cost basis is reset at the new price. Therefore, there are no taxes on the prior deferred distributions. **Below is an example of MLP tax treatment.** We assume a unit is purchased at \$30 and held for four years. Distributions are \$1 per year. The personal tax rate is 35% and the capital gains tax is 15%. With these assumptions, the investment generates a before tax return of 30% and after tax return of 9.5%.

Exhibit 29

Partnership Distributions Are Tax Efficient

Amount per share/unit	C-Corp	MLP	
Gross Income	\$ 5.00	\$ 5.00	
Deductions	\$(4.00)	\$(4.00)	
Taxable Income	\$ 1.00	\$ 1.00	
Federal Corporate Tax	\$(0.35)	\$ -	
State Tax (@5%)	\$(0.05)	\$ -	
Net Income	\$ 0.60	\$ 1.00	
Shareholder's Federal Tax (28%)	\$(0.17)	\$(0.28)	
Shareholder's State Tax (5%)	\$(0.03)	\$(0.05)	
Net Income to Shareholder	\$ 0.40	\$ 0.67	

Source: NAPTP; Morgan Stanley Research

MLPs invested within tax-exempt entities generate potential unrelated business taxable income (UBTI). Should one place a MLP in an IRA and its allocated taxable net income exceeds \$1,000, then it triggers an UBTI that would be subject to tax. Furthermore, mutual funds are legally limited in the amount they can invest in MLPs. MLPs cannot exceed 25% of their portfolio and they cannot own more than 10% of any MLP lest trigger a loss in tax-exempt status.

Institutions can invest in MLP I-shares to avoid UBTI.

MLP I-shares were created to promote institutional investment in MLPs without triggering UBTI. I-shares act similarly to MLP units, except instead of receiving a cash distribution, holders of I-shares receive additional shares. Only Kinder Morgan, through Kinder Morgan Management. LLC (KMR), and Enbridge Energy Partners, through Enbridge Energy Management, LLC (EEQ), offer I-shares.

Threat of losing tax status remains minimal. The government already regulates MLPs and allowed tax advantages for incentivizing critical US infrastructure build out. We place the likelihood of legislation passing as minimal, given the its effect (however small) to unemployment. Additionally, MLPs would make up a small portion of tax revenue. In an already tightly regulated industry, the threat to the tax treatment appears low.

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Who Are MLP Investors?

MLPs have traditionally been held by retail investors, but participation by institutional investors has grown significantly. In 2000, we saw retail ownership of ~88%, and very limited institutional participation. This percentage of institutional ownership has steadily increased over the past decade as more institutional capital has migrated into the space. In 2007, institutional participation peaked at around 37%, mainly on a deepening of market liquidity that has facilitated trading opportunities for institutional investors. Currently, institutions own ~39% of total MLP units.

Exhibit 30

Corp. Parents/Management Still Own a Lot of Stock Incentives are aligned via significant stock ownership

MLPs	Parent/Sponsor	Approximate % Stock Held by Parent
BWP	Loews (L)	49%
DPM	DCP Midstream, LLC (COP / SE)	27%
EEP	Enbridge Energy, Inc. (ENB)	18%
ETP	Energy Transfer Equity, L.P. (ETE)	17%
KMP	Kinder Morgan Inc. (KMI)	8%
NGLS	Targa Resources Investments Inc. (TRGP)	13%
NKA	Carlyle Riverstone (private equity)	49%
NS	NuStar GP Holdings, LLC (NSH)	13%
OKS	ONEOK, Inc. (OKE)	43%
PAA	PAA GP LLC (private company)	20%
PNG	Plains All American Pipeline, L.P. (PAA)	48%
RGP	Energy Transfer Equity, L.P. (ETE)	15%
RRMS	SemGroup Holdings, L.P. (SEMG)	24%
SEP	Spectra Energy Corp. (SE)	56%
TCP	TransCanada Pipelines Ltd (TRP)	32%
TGP	Teekay Corp. (TK)	36%
WGP	Anadarko Petroleum Corp. (APC)	91%
WPZ	Williams Corp. (WMB)	68%
XTEX	Crosstex Energy Inc. (XTXI)	21%
	AVERAGE	36%

Source: Alerian, Thomson Reuters, Morgan Stanley Research

MLPs continue to see substantial inflows entering the space. Since 1996, the market cap of MLPs has grown from \$8 billion to currently ~\$450+ billion. Additionally, daily trading volume has also increased in the space from \$6 million in 1996 to now \$900+ million. We still believe the space has substantial growth potential overall, as well as growth within the names (evidenced by the average market cap of \$4.0 billion, while the median is much lower at \$2.0 billion). As liquidity increases, we believe this will attract more capital that will further improve liquidity. We expect markets capitalizations to continue to rise in years ahead.

Exhibit 31

Average Yearly Market Cap Growth Has Been Substantial

Currently, ~\$480bn in market capitalization Consolidated Market Capitalization (in \$billions)



Source: Thomson Reuters, Morgan Stanley Research

Institutional inflows will continue to bolster liquidity. Currently retail investors represent 65% of ownership. Closedend funds hold 15%, while mutual funds and hedge funds each hold ~10%. Institutions have continued to gain share at an annual growth rate of 10%. While retail investors continue to drive most of the market cap growth, we believe the infrastructure growth story will continue to attract institutional investors. The result will be a further deepening of market liquidity, which in turn makes the space more attractive for more pools of capital. The first MLP closed-end fund was formed in 2004; today there are roughly 22.

New institutional allocations of capital to MLPs, particularly among pension funds. Continued growth and broadening of the MLP asset class has brought with it gradual but increasing institutional interest. While mutual funds and hedge funds have looked to enter or expand participation in MLPs, pension fund interest has also been a particularly notable trend that continues to gain steam. Pensions and their consultants have gained greater awareness of MLPs given their yield-oriented, hard asset/ infrastructure characteristics and strong track record, with liquidity in the space now reaching sufficient levels to accommodate the size of investment made by many of these large funds.

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Exhibit 32 Selected Pension Fund Allocations to MLPs

	Pension Fund	Investment
	Alaska Retirement Management Board	\$150 MM
1	Arapahoe County Retirement Plan	\$10 MM
	Arizona Public Safety Personnel Retirement System	NA
	Arkansas Local Police & Fire Retirement System	\$5 MM
	Arkansas Public Employees Retirement System	NA
	Arlington County Employees Retirement System	\$50 MM
	City of Jacksonville General Employees Retirement System	~\$70 MM
	City of New Haven Employees Retirement Fund	\$5 MM
	City of Philadelphia Board of Pensions & Retirement	\$60 MM
	Conagra Foods Defined Pension Plan	\$120 MM
	Delaw are Public Employees Retirement System	\$200 MM
1	Denver Employees Retirement Plan	\$40 MM
	El Paso County Retirement Plan	\$13 MM
	Fresno City Retirement Systems	NA
	low a Public Employees Retirement System	\$150 MM
	Kansas Public Employees Retirement System	\$100 MM
	Knoxville City Employees Retirement Fund	\$20 MM
	Missouri State Employees Retirement System	\$80 MM
	Ohio Police & Fire Pension	\$645 MM
	Oklahoma Teachers' Retirement System	\$480 MM
	Pennsylvania Public School Employees Retirement System	\$950 MM
	St. Charles Police Pension Fund	\$1 MM
	St. Louis City Employees' Retirement System	\$45 MM
	Tacoma Employees Retirement System	NA
	Tennessee Consolidated Retirement System	NA
	Tulsa County (Okla.) Employees Retirement System	\$6 MM
	University of Michigan Board of Regents	\$50 MM

Source: Company Data, Morgan Stanley Research

Closed-end funds add liquidity to MLP exposure. These funds provide an attractive alternative for investors concerned over the current lack of liquidity in MLPs. Though the tax efficiencies are lost, these funds compensate for that through management and higher leverage. Since 2004, \$5.8 billion has been raised for closed-end funds and this trend appears it will continue as more investors seek exposure. These vehicles provide a mixed bag of pros and cons for the MLP investor, but assuage concerns over lack of liquidity in MLPs.

Exhibit 33

Institutional Ownership Interest Has Increased

We believe it will ultimately surpass previous peak Average Institutional Ownership Percentage



Source: Thomson Reuters, Morgan Stanley Research

As MLPs Have Become Known, New Vehicles Beyond Investing Directly in the MLP Have Appeared

Exchange traded notes (ETNs). ETNs operate as indexed linked bonds that give access to an index. The notes pay coupons linked to the distributions of MLP tracked in the underlying index (typically Alerian) less fees. These funds also provide tax efficiency as capital gains are deferred until the security is sold. ETNs typically track the index better as they are not constrained by proportion of ownership of the securities in the index (because they do not own them). However, there is credit risk as a decline in credit rating or bankruptcy of the note-issuing bank can erode the value of the securities. The first ETN was started by Bear Stearns in 2007 (BSR) and now there is a total of ten.

Exchange traded funds (ETFs). These assets offer diversification and liquidity. ETFs hold units in the underlying MLPs trade like typical stock with the same treatment. This is another avenue for the investor wanting to avoid filing K-1s.

Closed-end funds (CEFs). Capital invested once the fund is launched stays in the fund in the form of tradable shares. These shares can trade at a premium to the underlying securities because of the active management. Taxes are the same as typical cash trading.

Open-ended mutual funds. These funds typically offer investors daily liquidity on both entrance in and exit from one's investment. Should investors elect to close positions in these funds, underlying MLP positions could need to be sold to meet redemptions.

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Exhibit 34

MLP Trading Volume

Volumes have increased to \$750m+/day

Average Daily Volume 52 Week (\$m)



Source: Company data;; Morgan Stanley Research;:

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Exhibit 35

A Brief Look at MLP Publicly Listed Products

Several new products in development could provide incremental fund flows, but also a potentially higher level of volatility

	Net Asse				
MLP / Midstream Closed-End Funds	Ticker	IPO Date	(\$ in mil)		
Tortoise Energy Infrastructure Corp.	TYG	02/24/04	\$1,020		
Fiduciary/Claymore MLP Opportunity Fund	FMO	12/22/04	\$647		
BlackRock Global Energy and Resources Trust	BGR	12/23/04	\$768		
Tortoise Energy Capital Corp.	TYY	05/26/05	\$541		
Kayne Anderson Energy Total Return Fund	KYE	06/27/05	\$868		
Tortoise North American Energy Corp.	TYN	10/27/05	\$161		
Kayne Anderson Energy Development Company	KED	09/21/06	\$317		
Tortoise Capital Resources Corp.	TTO	02/02/07	\$101		
MLP & Strategic Equity Fund	MTP	06/27/07	\$267		
Cushing MLP Total Return Fund	SRV	08/27/07	\$208		
Tortoise Pow er and Energy Infrastructure Fund	TPZ	07/29/09	\$186		
Clearbridge Energy MLP Fund	CEM	06/25/10	\$1,671		
Tortoise MLP Fund	NTG	07/27/10	\$1,141		
Kayne Anderson Midstream/Energy Fund, Inc.	KMF	11/23/10	\$620		
Front Street MLP Income Fund Ltd.	TSX: MLP	12/08/10	\$70		
Nuveen Energy MLP Total Return Fund	JMF	02/24/11	\$741		
Front Street MLP Income Fund II Ltd.	TSX: MLQ	05/20/11	\$50		
Salient MLP and Energy Infrastructure Fund	SMF	05/27/11	\$143		
Clearbridge Energy MLP Opportunity Fund	EMO	06/10/11	\$664		
Duff & Phelps Global Utility Income Fund Inc	DPG	07/29/11	\$762		
First Trust Energy Infrastructure Fund	FIF	09/27/11	\$410		
Tortoise Pipeline & Energy Fund	TTP	10/27/11	\$253		
Cushing Royalty & Income Fund	SRF	02/29/12	\$194		
Salient Midstream & MLP Fund	SMM	05/29/12	\$173		
ClearBridge Energy MLP Total Return Fund Inc	CTR	06/27/12	\$807		
SUB TOTAL			\$30,850		
MLP Exchange Traded Notes and Funds					
Estimated various (open ended mutual funds, exchange traded notes,	Various	2009 - now	\$12,000		
exchange traded funds).					
TOTAL			\$42,850		

Source: Thomson Reuters, Company data, Morgan Stanley Research

NOTE: 1) Not all funds are 100% invested in MLPs. 2) Not all funds are listed due to certain legal restrictions. This is a list of funds that we can list at this point in time. Please call with questions or more information on data above.

Exhibit 36

Institutional Ownership Trends

% of MLP equity that is owned by institutional investors



Exhibit 37

Foresight Energy Partners LP

Armstrong Resource Partners

Sprague Resources

Source: SEC filings

Publicly Filed IPO Backlog								
-	Proposed	Initial	Most recent					
Name of MLP	Ticker	S-1 filed	S-1 filed	Asset type				
Tallgrass Energy Partners	TEP	3/28/13	4/8/13	Natural Gas				
Phillips 66 Partners	PSXP	3/27/13	3/27/13	Crude Oil				
Emerge Energy Services	EMES	3/25/13	3/25/13	Sand				
Maxum Energy Logistics	MXLP	5/4/12	7/3/12	Liquids Logistics				
Quicksilver Production Partners	QPP	2/10/12	6/22/12	E&P				

2/2/12

10/12/11

7/27/11

4/12/12

7/2/12

3/23/12

Coal

Coal

Terminals

FELP

ARPS

SRLP

Source: Thomson Reuters, Morgan Stanley Research

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How Do MLPs Grow?

MLPs rely on capital market access. Since MLPs opt to distribute substantial portion of their cash flows to unitholders, they must depend on the capital markets to fund new growth projects. Over the past 5 years, MLPs have continued to raise more capital year-over-year, with about a 280% increase from 2004 to 2012. Distribution growth acts as key driver of price appreciation, and IDRs provide incentive for management teams to be more growth oriented to sustain project execution and hence distribution growth. Exhibit 38

Virtuous Cycle of MLP Growth



Source: Morgan Stanley Research

The market rewards MLPs that deliver stability and

growth. Investors prefer funding opportunities that they believe to be value-accretive. Given an MLP's dependence of on capital markets to fund growth projects, investor expectations for such projects are of foremost importance in MLPs' pursuit of capital. Stability and growth drive investors' interest in the space and thus MLPs must find or build investment opportunities to fit these criteria.

Exhibit 39

Capital Markets Continue to Fuel MLP Expansion

Last two years have been big for new capital



50/50 capital structure. While MLPs receive no tax shield benefit from issuing debt (no corporate tax), they have typically financed projects with 50% debt and 50% equity. Given the stable utility-like assets of MLPs, financing with more debt may appear to be a more viable option. However, the fact that MLPs choose to distribute much of their available cash causes rating agencies as well as investors to require more equity in issuances to reduce risk.

Private investment in public equity (PIPEs) provides another alternative for direct investment in MLPs. In some cases, an MLP seeking capital can bypass the markets and issue shares directly to a private entity to fund new projects. The discount on shares or a direct fee for this private investment attracts the institutional investor. Since 2004, MLPs have raised over \$15+ billion in PIPE funds. Until late 2007, PIPEs were a preferred method to raise the equity portion of expansion projects. The MLP solved its funding overhang and the markets typically responded favorably once the now funded project was announced (serving the interest of the private investor as well).

Starting in late 2007, a paradigm shift occurred in PIPEs. Units began to trade down after PIPE announcements as investors began to focus on the lock up date (the date at which point the private investor would be permitted to sell their units) and wary of the potential selling overhang on the stock price. Though we believe PIPEs will continue to be a method to finance future MLP growth, we do see this method take on a more subdued level of participation than it has had in the past.

Exhibit 40

MLPs Funds Come Various Ways Outside capital is the fuel for new growth projects



Source: Company data; Morgan Stanley Research

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The dropdown structure creates a clear growth path. As competition for new acquisitions increases and organic projects become more difficult to build, MLPs with a strong parent willing to "drop down" midstream assets into them have a clear growth advantage. MLPs such as WES have parent companies (APC) that actively fuel their own growth with asset dropdowns. While the frequency of dropdowns varies significantly for each parent/MLP relationship and MLPs still may face competition for such assets, the market typically expects a clear and consistent dropdowns path (usually one or two per year). MLPs with this visible growth profile tend to trade at a premium relative to other partnerships. MLPs enjoy a low cost of capital. The typically stable assets that MLPs operate, along with the FERC regulating the rates of returns on these assets through tariffs allow MLPs to have a low cost of capital. In our coverage universe, the cost of capital is between 7-9% reflecting the stable and relatively less risky business models of MLPs. When calculating the cost of capital we look at our implied dividend yields over the next 10 years based on our distribution growth assumptions. We then must account for the increasing share of cash flows to the GP as the partnerships reaches higher splits and generates more cash flow (due to IDRs), leading us to an effective cost of capital for the partnership. Of note, we do not find the capital asset pricing model (CAPM) optimal for our space as CAPM is based on market correlation, which MLPs historically have lacked. Exhibit 39 highlights that acquisitions organic projects are accretive when ROIC is greater than WACC.

Exhibit 41 **How Dropdowns Work** *A hypothetical and typical example (situations may vary)*



Source: Morgan Stanley Research

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Exhibit 42

Hypothetical Cost of Capital Calculation

For a large cap MLP: assuming 50% incentive distribution rights and a 6.0% equity trading yield; cost of capital can come out to 6.9% in the current environment

Assumptions (000s)					Accretion to G	P and LP				
Total investment / acquisition price	\$1	,000,000			Distributions to C	Pon new LP	unit	S	\$	8,336
EBITDA return on investment		15.38%	6.5x	multiple	GP take of cash	left available		50%		37,589
					GP new cash t	ake			\$	45,925
% funded by debt		50%								
New proceeds from debt	\$	500,000			LP take of cash	left available		50%	\$	37,589
Interest rate on new debt		5.00%			LP units outstan	ding post equit	у			111,510
					LP Accretion	/ unit			\$	0.34
% funded by equity		50%			% accretion / ι	ınit				7.3%
New proceeds from equity	\$	500,000								
Unit price of equity issued	\$	80.00			Cash distribute	d to GP on nev	vu	nits issued		
# of LP units issued		6,510	4%	underw riting spread	Current distrik	oution run-ra	te	/ LP unit	\$	4.60
					LP	<u>GP</u>		<u>Upto</u>	G	Pshare
New EBITDA	\$	153,846			98%	2%	\$	2.42	\$	322
Maintenance capex		(15,385)	10%	of EBITDA	85%	15%	\$	2.86		506
Interest on new debt		(25,000)			75%	25%	\$	3.74		1,910
Distributable cash flow	\$	113,462	8.8x	DCF mulitple	50%	50%				5,599
Distributions to new LP units issued		(29,948)	78%						\$	8,336
Distributions to GP related to new units		(8,336)	22%							
Free cash flow after cost of units	\$	75,178								
Cost of capital										
Cost of debt capital		5.00%								
% funded by debt		50%								
Cost of debt component		2.50%								
Cost of LP equity		5.99%								
Cost of GP distributions		1.67%								
Cost of assumed 7% distr grow th		1.11%	for 2 y	/ears						
Cost of equity capital		8.77%								
% funded by equity		50%								
Cost of equity component		4.38%								
WACC		6.88%								

WACC

Source: Morgan Stanley Research

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MLP Operations Structure

Among the various parts in the value chain, MLPs fall into a select list of specific business models. The majority of midstream assets fall under the following main categories: gathering and processing, refined products, natural gas, large-cap diversified, marine shipping, and propane, each carries its own unique risks in pursuing growth and stability.

Gathering and processing experience some commodity price risks, but more volumetrically exposed. Because of its proximity to E&P assets, gathering assets are exposed to the greatest commodity price and volumetric risks within the midstream value chain. The gathering business is fee-based and heavily dependent on volume. G&Ps must therefore service and constantly find multiple well-connects to maintain cash flows. This makes the gatherers-producer contract terms an important determinant of commodity volume exposure. While earlier processing contracts were mainly on a "keep-whole" basis (processor having exposure to natural gas / NGL volumes), the trend has largely shifted towards fee-based contracts that significantly reduce the commodity exposure for G&P MLPs. Still, depending on management strategy, certain G&Ps might mix their contract structure in such a way that provides incremental upside in a rising commodity price environment, appealing to investors with higher risk tolerance.

Processors handle various degrees of risks depending on the contract. With their primary function of extracting NGLs from the natural gas, processors are exposed to commodity prices, more specifically the fractionation spread – the difference between natural gas and NGL price (on an mmbtu basis). While natural gas sets the price floor for NGLs, they

Exhibit 43





Source: En*Vantage; Morgan Stanley Research

compete heavily with petroleum products. Weather, economic events, industry events, and geopolitical events all influence this volatile margin, creating substantial risks for processors. Thus, processing contracts can take multiple forms and with various degrees of risks.

The Crude and Refined products business model has lower commodity price exposure, and methods of compensating for volumetric risks. These companies have a greater blend of pipeline assets as well as terminal/storage assets. With a higher focus on transportation, while still volume dependent, these firms have much less risks than those that are closer to the wellhead. While crude oil throughput remains mostly inelastic, the threat of a decline in volume still exists. Tariff-based contracts on these pipelines have PPI escalators that index revenues to inflation to offset risks. Given that the FERC adjusts tariffs every July based on the change in PPI+ 2.65%, these pipeline assets offer a reasonable inflation hedge. In some cases where there is greater competition or the cost of running the pipeline may be exceedingly high, a firm may choose to opt out and earn revenue based on a market rate or cost of service respectively. Both options remain FERC regulated. Similarly, storage also depends heavily on volume, seasonality, and contango markets. While these assets have less commodity exposure, we cannot assume an immutable inelastic demand of oil and refined products.

Natural gas and NGL pipeline companies have the most stable of all the midstream business models. Natural gas pipelines provide investors with the most stable revenue stream in the MLP space. They lack direct commodity price exposure as they primarily focus on the transportation, and in some cases gathering and storage, of natural gas. Longterm fee-based take or pay contracts allow these companies to lock in revenue for the long term, virtually eliminating volumetric risks. Because customers pay to reserve capacity in the pipeline, the firm receives payment regardless of the actually amount of product shipped. Most new natural gas pipelines have these "take-or-pay" contracts as a way to lock revenue commitments prior construction. With natural gas pipelines making up the majority of new infrastructure, we could see these type of MLPs garner greater investor interest as increased natural gas production and potential of shift in energy policy toward burning more natural gas take hold.

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Exhibit 44

FERC Mainly Regulates Pipeline Companies

Asset	Are Rates Regulated?
Coal	No
Crude oil pipelines	Yes
E&P	No
Fractionation	No
Gas processing	No
Gathering pipelines	No
Marine shipping	No
Natural gas pipelines	Yes
NGL pipelines	Yes & No
Propane	No
Refined product pipelines	Yes
Refining	No
Storage/Terminals	No

Source: Morgan Stanley Research

Large-cap diversified. These players typically have assets at various levels of integration across the midstream value chain. In our coverage universe, large-cap MLPs have varied exposure to pipelines, storage, terminals, gathering, processing, fractionation, and, in some cases, exploration and production. A large geographic footprint is also a feature of these large cap companies, and we believe this mitigates risks inherent in operating each business on standalone basis. Both the asset diversity and geographic footprint work in concert to reduce idiosyncratic risk in MLPs stocks, experiencing premium valuation because of their perceived safety. Consequently, large-cap MLPs usually enjoy investment grade ratings, premium valuation and higher trading liquidity, endowing them with greater ability to fund new projects because of their perceived safety.

Propane. These businesses focus primarily on storage and distribution of propane (including industrial and retail customers). Their models have a similar risk profile to storage assets with sensitivity to products prices and the competitive relationship between NGLs and liquefied petroleum gases (LPGs). Additionally, propane is a seasonal business with nearly three quarters of revenue earned during the winter heating season. Competition in this industry is fierce, primarily as a result of fragmentation. Despite these factors, propane-focused MLPs derive value and assure distribution growth from a healthy dropdown relationship with its parents.

Marine Shipping. Shipping has little exposure to commodity prices, but remains highly dependent on broad energy demand. Weather patterns, piracy, crewing issues, local/global regulations, exposure to market rates and others make shipping a riskier business model relative to that found at pipelines. Moreover, market rates are notoriously volatile, and

shipping firms attempt to curtail this impact by entering into long-term contracts (generally 3-5 years). In the case of liquefied natural gas (LNG) transportation, the contracts tend to be longer term with escalators that pass on cost increases. Shipping MLPs work to create more stable cash flows with longer and more static contracts.

Coal. Coal MLPs that produce the commodity usually depend on volume and price to drive revenues, and typically have contract terms of 1-3 year designed to protect cash flows against coal spot price volatility (electricity demand, as well as the relative price of natural gas and oil, principally drive coal spot prices). Other coal MLPs own, lease, and manage coal reserves where revenue come from royalty payments, with costs limited to administrative and corporate expenses.

General Partners. Depending on the structure of the underlying MLP, the GP model varies. In most cases, the GP can serve a critical role in evaluating potential growth and financial stability by providing clear growth paths (dropdowns) or as a financial backstop for the MLP in unfavorable markets. In that context, GP MLPs are essentially a levered play in the underlying MLP: as the entity acquires or grows its asset base, its distribution also grows, and as a result of IDRs, the GP enjoys higher incremental cash flows over time. While IDRs align GP/LP interests, rapid distribution growth can disproportionally benefit the GP at the expense of growth at

Exhibit 45

Example of Owning the GP Stock

Essentially a holding company that receives cash through multiple avenues (GP interest, LP units, IDRs)



Source: Company data, Morgan Stanley Research

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Exhibit 46

Short Trading History: Fewer GPs Today

IDRs restructuring has taken the form of fewer publicly traded GPs, making recent GP IPOs an aberration.



Source: Company data, Morgan Stanley Research

the LP (the incremental cash flow taxes cash flow availability at the LP). As a way to directly address this perceived conflict, GP/LP have undertaken IDR restructurings, which have now become commonplace in the space. The need to restructure not only arises from GP's reaching into the higher splits, but also because of the powerful undercurrents of the 2008/09 credit crisis. We have observed a variety of IDR restructurings; from GPs opting to "reset" their split levels lower to LPs merging or acquiring GP, effectively eliminating the associated IDRs at the GP.

General Partner consolidation was a prevalent theme of

2010. General partner restructurings became one of the primary themes of 2010 as partnerships sought, to varying degrees, to reduce cost of capital burdens in competing for new acquisitions, minimize organizational complexity and conflicts of interest, and obviate potential alterations to the treatment of carried interest taxation (incentive distribution rights are a form of carried interest). While investor preference for higher growth MLPs initially drove general partner performance in 2010, LP-GP mergers garnered premiums to prevailing general partner values and created scarcity value for those remaining.

Exhibit 47

General Partner Consolidations in 2010

GP buyouts were transacted at an avg 21x P/DCF multiple (blended multiple for both LP and GP cash flow)

	Buyer	Seller	Multiple
Date	LP	GP	P/DCF
Jun-10	BPL	BGH	22x
Aug-10	NRGY	NRGP	25x
Sep-10	EPD	EPE	22x
Sep-10	PVR	PVG	17x
Sep-10	NRP	Private	17x
		Average	21x

Source: Company data, Morgan Stanley Research

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The Midstream Value Chain

Exhibit 48

Oil and Gas Energy Value Chain — the Backbone of the MLP Asset Class

A critical part of energy infrastructure responsible for moving product from well-head to end use



Source: EPD; Morgan Stanley Research

Exhibit 49

Midstream MLP Business Profiles

Pipelines typically have the highest degree of cash flow (CF) stability

Cash Flow Stability	Type of Business	Contract Length	Revenue Type	Exposure to Commodity Prices	Types of Customers
Very High	Natural gas pipelines	10+ Yrs	Rental fee / "Ship-or-pay"	Little	Gas distributors, Utilities, Producers, Marketers and other
	Crude oil pipelines	5-10+ Yrs	Rental fee / Volume	Little	Refiners, Producers, Financials
-	Storage	3-5 Yrs	Rental fee / Volume	Little (forw ard curve, contango)	Utilities, Marketers, Financials
	Refined prod. pipelines	1-5 Yrs	Rental fee / Volume	Little	Refiners, Marketers
	NGL pipelines	1-5 Yrs	Rental fee / Volume	Little	Petrochemical plants, Producers
	Gathering	Ranging from month-to-month to life of lease dedications	Rental fee / Volume	Little	Producers
	Fractionation	Typically short-term contracts but trending more long-term	Fee-based / "Frac-or-Pay"	Little	Producers
	Rail	1-5 Yrs	Fee-based / Distance	Little	Refiners, Producers
	Terminals	1-3 Yrs	Volume / Ancillary services	Little (contango)	Refiners, Financials
	Processing	Month-to-month to life of lease dedications	Fee-per-car / Distance	More (NGL prices, contract mix)	Producers
	Marine shipping	1-3 Yrs	Fee-based / Indexed charter rates	Little	Refiners, Petrochemical companies, Integrateds, Marketers
Very Low	E&P		Market rates / Hedging	Significant	Midstream operators

Source: Morgan Stanley Research

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The energy value chain provides the link between the natural resource and the finished product. Midstream assets link supply with demand, a bridge between energy producers and energy end users. Midstream infrastructure plays the role of transforming and transporting natural resources of oil and gas into finished products for the end user. Crude oil becomes one of numerous petroleum products like gasoline, jet fuel, diesel, heating oil, kerosene, and various byproducts. Natural gas becomes useful for residential and industrial heating, power generation. In the case of "wet" natural gas, after certain processing steps, natural gas liquids (NGLs) emerge from the natural gas stream to become petrochemical feedstocks in most cases (e.g., ethane, butane, etc.). ³

Connecting end users. After the commodity is extracted from the ground, midstream assets provide the remaining necessary steps in order to serve end users. In the case of natural gas, midstream encompasses gathering, processing, fractionation, transportation through pipelines, storage, and in some cases distribution. For crude oil, the process consists of gathering, transporting, and refining. These midstream assets provide critical services for the energy infrastructure.

Exhibit 50

Natural Gas Consumption by End Use Power generation will drive demand longer term

Source: EIA; Morgan Stanley Research

MLPs in our coverage operate a diverse set of assets; investors look for stability and growth among the businesses. MLP infrastructure assets vary across different business lines (e.g., G&P, marine shipping, pipelines, storage) and across multiple commodity classes (e.g., crude, natural gas, NGLs). Businesses at different points on the value chain have varying degrees of risks, with investors valuing distribution stability and growth. Still, midstream MLPs vary in terms of the risk/reward profile, responding to broad investor risk appetite in the marketplace.

Exploration and Production (E&P)

E&P involves extracting the commodity — crude or natural gas — from the ground. While only a few MLPs have an upstream focus, those that do typically concentrate on the production of mature reserves, which provide production longevity (rather than finding new reserves). To mitigate commodity-related exposure, MLPs with E&P assets hedge as much as 70–90% of their production, one to three years forward. Broadly, MLPs tend not to have much commodity-related exposure, but E&P MLPs do provide higher risk appetite investors with an ability to participate in commodity price movements, albeit at a higher risk profile.

Gathering

Gathering encompasses smaller capillary-like pipes 4- to 6inches in diameter and provides short-haul takeaway capacity from the wellhead, drawing oil or gas into the larger long-haul pipelines or for processing (see next segment). As initial wells age and lose pressure, companies connect additional gathering pipelines to new wells in order to maintain the pressure. Alternatively, gathering companies can also install field compression to maintain constant pressure across the well and pipelines. Natural gas prices indirectly influence gathering activity because as commodity prices increase, rig activity increases, promoting additional drilling, and thus incrementally more well-connect opportunities.

Processing

Processing purges the natural gas of impurities in order to meet specific pipeline specifications for transportation. Processing includes dehydration (removes water, which can combine with natural gas to form ice blockages in the pipeline), treating (removes impurities, such as carbon dioxide, hydrogen sulfide that could damage pipelines) and the extraction of NGLs from the gas stream. This raw mix of NGLs consists of ethane, butane, iso-butane, propane, and natural gasoline, all of which have valuable uses later in the value chain.

³ See the section Natural Gas Processing for details.

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Fractionation⁴

This process separates the mixed NGL stream into its component parts of ethane, butane, iso-butane, propane, as well as natural gasoline. Each of these components has a particular use. Ethane becomes ethylene for use in production of plastics, insulation, lubricants, detergents, and other products. Propane is used for heating homes, heating water, cooking, as well as refrigeration and vehicle fuel. Butane acts as a feedstock for iso-butane, plastics and gasoline blending. Iso-butanes work in refrigeration systems, is a propellant in aerosol sprays, and is a petrochemical feedstock. If the prices of the NGL components are unattractive, fractionation activity will decrease because the process has become uneconomical.

Pipelines

Pipelines move various types of products across the country, and there are multiple types of pipelines to move different products.

- Natural Gas Pipelines: These large diameter and long-haul pipelines that transport gathered natural gas to the end users. These pipelines tend to have relatively stable cash flows because they are typically backed by fixed-fee contracts.
- *Refined Products Pipelines:* These pipelines typically transport products refined from crude including gasoline, diesel, and jet fuel. Their income is fee-based and dependent on throughput. The products can exhibit fluctuation in demand, but largely cash flows remain stable.
- *Crude Oil Pipelines:* Actual throughput determines revenue, but remains stable due to the constant use and persistent inelastic demand of oil.
- *NGL Pipelines:* These pipelines depend on revenue by the fixed fee per gallon basis. Given the market sensitivity of NGLs, throughput can vary.

Rail

Rail cars are also used to transport crude oil. Revenue will depend on a fee-by-car, based on volume and the distance it will go through. Railroads have gained relevance in the industry as unit trains have increased in feasibility and pipelines are showing a lack of capacity in certain regions. Railroads can access different markets on shorter duration contracts, and can be built in areas where pipelines are either impractical or not permitted.

⁴ See the section Natural Gas Liquids Fractionation for details.

Terminals

Terminals typically handle crude and refined products. Crude oil and refined products reside in either inland or marine terminals. Inland terminals receive and distribute product, while marine terminals receive product via vessels or pipelines. Terminals generate market rate revenue from storage, throughput fees, as well as from blending and additive injection. These facilities see most cash flow generating opportunities during contango markets in which product owners seek to store product to take advantage of higher future prices relative to spot prices.

Exhibit 51

Crude Oil Contango

Market structure is upward sloping more often than not



Jan-05 Sep-05 Jun-06 Mar-07 Dec-07 Sep-08 Jun-09 Mar-10 Dec-10 Aug-11 Source: Bloomberg, Morgan Stanley Research

Storage

Resources stay in storage to ensure reliable supply come necessary as well as more favorable pricing. Companies store refined products and crude oil in above ground facilities while underground facilities typically house natural gas within depleted reservoirs, aquifers, or salt cavern formations.

Exhibit 52

Natural Gas Contango

A flat gas curve can bring storage rates down



Jan-05 Sep-05 Jun-06 Mar-07 Dec-07 Sep-08 Jun-09 Mar-10 Dec-10 Aug-11 May-12 Source: Bloomberg, Morgan Stanley Research

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NGL Market Fundamentals: Natural Gas Processing

The US has an extensive natural gas processing footprint. As of September 2011, US natural gas production inlet capacity stood at approximately 91 Bcf/d, up from 77 Bcf/d in 2009, with non gulf coast areas driving growth. Historically the US averages about ~66% utilization rate for the industry. Also, about 78% of natural gas production requires processing, supporting the idea that the US has ample processing capacity. However, we would not generalize so broadly, particularly given the ongoing need to build additional processing plants near new supply sources like the Marcellus.

Natural gas processing plants are located in distinct geographic areas. Geography - The vast majority of plants are located in producing areas of the country, including the Gulf Coast, Rockies and Alaska. Texas had the highest number of plants (163) and largest aggregate capacity (19.7 Bcf/d), equating to roughly one quarter of the US total. Texas and Louisiana accounted for almost half of total US processing capacity, with the largest plants situated along the Gulf Coast. Of the 22 states with processing plants, 15 decreased the number of plants from 2004-2009 while three showed increases. The largest nine plants in the US comprised 31% of total processing capacity. Including Alaska, 12 plants had an operating capacity above 1 Bcf/d, of which six were in Louisiana. The largest single processing plant is in Alaska with an operating capacity of 8.5 Bcf/d. However, some areas such as the Marcellus appear to have insufficient processing infrastructure. We expect gas processors to build additional processing capacity to serve the wet gas areas of the play as they develop. We also see a need for additional processing in South Texas, though less than the Marcellus, to serve gas production from the Eagle Ford shale (the volumes from unconventional resource plays are replacing volumes from legacy / conventional sources).

NGL extraction has been steadily increasing over recent years. We attribute this to increased technological advances in processing (cryo plants allowing higher recovery rates of NGLs), producers shifting to more liquids-rich resource plays given the high prices of NGLs (the NGL uplift), and increased demand from petchem markets for NGLs, particularly ethane.

Natural Gas Processing Background

The primary purpose for natural gas processing is to make gas meet specific quality measures for transport. Most gas produced at the wellhead contains contaminants and NGLs that must be processed (taken out of the natural gas stream) in order to be safely injected into higher-pressure long-haul pipelines to meet consumer demand.

There are typically two methods to separate pure natural gas (methane) from NGLs: cryogenic processing and absorption. The first, cryogenic processing, consists of lowering the temperature of the gas stream. This causes the hydrocarbons to condense and essentially "fall out" of the gas stream. Cryogenic processing is better at extracting the lighter NGLs (i.e., ethane) than the alternative method, absorption. The absorption method uses an absorbing oil to separate the gas from NGLs. The gas stream is run through an absorption tower, where the absorption oil attracts and soaks up the NGLs. The absorption oil, now saturated with NGLs, exits the bottom of the tower and is moved to distillers where the mixture is heated and the NGLs boil off into its component parts. Over the past few years processing plant builds have mainly been of the cryogenic type, which equates to higher ethane extraction capabilities and ethane stock builds. However, we believe the increased ethane supplies will meet demand from the petrochemical industry for their use as a purity ethane feedstock.

What are NGLs? A typical natural gas liquids stream is ethane, propane, normal butane, iso-butane, and natural gasoline. Each component has its own demand drivers and pricing mechanisms, although some NGLs may compete with each other. About 81% of domestic NGLs come from gas processing, 13% from crude oil refining, and the remaining 6% from imports. End uses include feedstocks for petrochemicals (53%), space heating and other uses like crop drying (16%), motor gasoline and blend stocks (19%), and fuel exports and other (12%).

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Exhibit 53

US Natural Gas Processing Industry Profile

The vast majority of North American processing assets are along the Gulf Coast and Mid-continent. We expect incremental processing builds near "wet" gas areas such as the Marcellus



Source: EIA, Morgan Stanley Research

Exhibit 55

Ethane/Ethylene Stock

Higher recovery rates of ethane from processing plants and steam cracker outages contribute to higher ethane/ethylene stocks



Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-1 Source: EIA, Morgan Stanley Research

Exhibit 56

NGLs Extracted from Gas Processing

NGLs extracted has remained relatively flat since 2000, but ethane has become a larger constituent of total NGLs given more efficient ethane extraction



Note: * denotes MS estimates. Source: EIA, Morgan Stanley Research

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Natural Gas Liquids Fractionation

What Is Fractionation?

NGL fractionation is the process of separating a mixed NGL stream into its purity NGL products. Fractionation facilities accomplish this task by using the various boiling points of the hydrocarbons in the stream. The process occurs in multiple stages. In each stage, heat is applied to the mixed NGL stream until a certain temperature is reached. This causes the appropriate liquid to boil, evaporate and separate from the stream and exit into a specific holding tank. The remaining stream flows into the next tower where the process is repeated. The primary sources of mixed NGLs fractionated in the US come from domestic natural gas processing plants, domestic crude oil refineries and lastly imports.

Ethane has become a larger component of total NGLs due to more efficient ethane extraction in processing plants. According to NGL market expert EnVantage, gas processing capacity is forecast to increase by 15.0BCFD 2012-2015 (37% Marcelllus / Utica) and 5.5BCFPD 2015-2020, including 2.1BCFD in the Marcellus/Utica. Within this increase, NGL extraction capability should increase from 2.5 MMBPD to 3.71 MMBPD (Bull case is 4.18 MMBPD) by 2020. Meanwhile, current ethane extraction levels should average ~1,200 BPD in 2013 and are forecast to increase to ~1,700 by 2020.

Exhibit 57

US Fractionation Capacity

Significant capacity expected to come online near term

Owner/Operator	Location	New/Expansion Capacity (,000 bpd)	In-Service
Southcross Energy	Refugio, TX	22.5	1Q13
ChevronPhillips Chemical	Sweeny,TX	22	1Q13
Enterprise Products (WTX 1)	Mt. Belvieu, TX	10	1Q13
Formosa Hydrocarbons	Point Comfort, TX	75	1Q13
Lone Star NGL	Mt. Belvieu, TX	100	1Q13
QEP Energy Resources	Sweetwater, UT	10	2Q13
Crosstex Energy Services (Eunice)	Acadia, LA	40	2Q13
Targa Resources (CBF train 4)	Mt. Belvieu, TX	100	2Q13
OneOk Inc. (Brushton)	Ellsworth, KS	60	2Q13
Cheasepeake/M3/EV Energy	Harrison, OH	90	2Q13
MarkWest Liberty Midstream*	Washington, PA	38	2Q13
MarkWest Liberty Midstream*	Marshall, WV	38	2Q13
OneOk Inc. (MB-2)	Mt. Belvieu, TX	75	2Q13
Williams*	Marshall, WV (Ft. Beeler)	30	3Q13
Dominion Transmission	Marshall, WV	23	3Q13
Enterprise Products (MB1 train 7)	Mt. Belvieu, TX	75	3Q13
Williams	Marshall, WV (Moundsville III)	30	4Q13
Enterprise Products (MB1 train 8)	Mt. Belvieu, TX	75	4Q13
MarkWest Utica	Harrison, OH	60	4Q13
MarkWest Utica*	Harrison, OH	40	1Q14
Lone Star NGL	Mt. Belvieu, TX	100	1Q14
MarkWest Liberty Midstream*	Marshall, WV	38	2Q14
Williams*	Marshall, WV (Ft.Wetzel)	20	TBD
Total proposed fractionation capac	ity	1,172	

Source: Company data, Morgan Stanley Research

Exhibit 58

Mt. Belvieu Fractionation Capacity Driving capacity growth

(in MBPD)		Current	Expa	Expansions	
Facility	Operator	Capacity	2013E	2014E	2014E
Enterprise MB	Enterprise	455	170	0	625
Cedar Bayou	Targa	275	100	0	375
MB-2	Oneok	165	75	0	240
Gulf Coast Fractionators	ConocoPhillips	102	43	0	145
Lone Star NGL LLC	Energy Transfer/RGP	0	100	100	200
MB-3	Oneok	0	0	75	75
Expansions			488	175	663
Total Capacity		997	1,485	1,660	1,660
Source: Company data, Morgan Stapley Research estimates, En*Vantage					

Gatherers & processors (G&Ps) will continue to process and fractionate natural gas and NGLs given positive economics. The fractionation (frac) spread is the difference between the values received for NGLs recovered from natural gas compared to the value received for the equivalent heat content of unprocessed natural gas. For the frac spread to remain positive, overall NGL prices need to stay strong and/or natural gas prices need to decline or remain depressed.

Exhibit 59

Fractionation Spread (\$/gal)

Positive frac spreads incentivize producers to drill in liquids-rich areas



Source: Bloomberg, Morgan Stanley

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NGL Supply Fundamentals

The favorable outlook for the NGL business creates a need for midstream infrastructure development. Producers benefit from the liquids price uplift; midstream players benefit from record fractionation spreads and infrastructure development; and downstream players benefit from a steady supply of cost-advantaged feedstock.

The US NGL markets are undergoing dramatic shifts. Technological advances in drilling and completion techniques have unlocked not only vast deposits of natural gas but also natural gas liquids that were previously believed to be unrecoverable. As a result, the US NGL markets have been rebalancing. US imports of NGLs have been declining, exports of propane, butane, and natural gasoline have been increasing, and the European market is set to open for ethane exports.

NGL supply increases as producer economics favor rich gas production. Liquids production is more profitable than dry gas production due to the high crude oil-to-natural gas ratio on a BTU equivalent basis. As a result, producers have targeted liquids-rich plays (e.g., Eagle Ford, Granite Wash, Bakken, etc.) and areas of traditional dry-gas plays with high BTU natural gas (e.g., Barnett, Marcellus). These areas have liquid content as high as 9 gpm (gallons per Mcf), compared to average US gas production that has a liquid content of 1.7 gpm.

Exhibit 60

Crude Oil/Natural Gas Ratio



The high crude to gas ratio favors liquid production

May-04 May-05 May-06 May-07 May-08 May-09 May-10 May-11 May-12 Source: Bloomberg, Morgan Stanley Research

Exhibit 61 Liquids-Rich Plays

New plays have	liquids	content	as	high á	as 9	gpm.
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Rich Plays	NGL Content*	Rich Plays	NGL Content*
Avalon/Bone Springs	4.0 to 5.0 gpm	Granite Wash	4.0 to 6.0 gpm
Bakken	4.0 to 9.0 gpm	Green River	3.0 to 50 gpm
Barnett	2.5 to 3.5 gpm	Niobrara	4.0 to 9.0 gpm
Cana-Woodford	4.0 to 6.0 gpm	Piceance-Uinta	2.5 to 3.5 gpm
Eagle Ford	4.0 to 9.0 gpm	Green River	2.5 to 3.5 gpm
Marcellus (Rich)	4.0 to 9.0 gpm		
* gpm – gallons of NGI	s per 1000 cu. ft.		

Source: En*Vantage, Morgan Stanley Research

NGL extraction capability is expected to increase by 500MBPD, to 2.65MBPD according to NGL market expert Peter Fasullo; it rose to 2.52 MM BPD in February 2013. In anticipation of production growth from new plays, and E&Ps high level of activity in rich-gas plays, the midstream industry plans to construct additional processing facilities with more efficient NGL extraction capability.

Exhibit 62

Propane and Propylene Imports vs. Exports Exports surpass imports for most of 2012





Source: EIA , Morgan Stanley Research

Ethane is growing as a percentage of NGL production. Historically, NGLs have yielded about 40% ethane. Recently, this ratio has been as high as 38%, and we expect it could rise further, driven by new ethane-rich growth plays and increasing cryogenic processing.

Exhibit 63 NGL Price Sensitivity to Crude Oil

On average, an NGL barrel is worth ~35% of crude

MS 2013e Forecast					ecast	Current	
Crude (\$/bbl)				Bull	Base	Bear	Price
Brent Crude				120	110	90	107
WTI Crude				101	96	80	94
		Current	Hist avg	Imp	olied NGL	price u	ising
NGLs	Current	% of	as%of	Histori	cal avera	ige as %	of WTI
(\$/gal)	Price	WTI	WTI	Bull	Base	Bear	Current
Ethane	\$0.29	13%	41%	\$0.99	\$0.93	\$0.78	\$0.92
Propane	\$0.87	41%	66%	\$1.59	\$1.50	\$1.26	\$1.48
NGL Barrel	\$0.79	35%	62%	\$1.49	\$1.41	\$1.18	\$1.39

Brent Crude Forecast of Morgan Stanley Commodity Strategy Team, Morgan Stanley does not have a WTI Crude forecast; we assume a \$13.5 discount to Brent Source: Company data, Morgan Stanley Research

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NGL (Ethane) Demand Fundamentals

The US has become a low-cost producer of ethylene because of its cost-advantaged feedstock, ethane. In 2003, a high oil-to-ethane price ratio resulted in the US being the most expensive place globally to produce ethylene and associated derivatives. Starting in 2006, the feedstock environment shifted, with crude oil demand surging and crude oil prices increasing to record levels in 2008. While US natural gas also increased, inflation was at considerably lower rates and on a BTU basis natural gas became the preferred feedstock. By 2009, the US had become the third-cheapest place globally to produce petrochemicals (after the Middle East and Alberta). Additionally, the US ethylene industry continues to convert steam crackers to accept light-feeds, such as ethane and propane, instead of crude oil feeds such as naphtha and gasoil. However, although demand is accelerating, NGL supply growth is far outpacing the incremental demand for NGLs.

Exhibit 64

Global Ethylene Cash Costs

US petrochemical producers are benefiting from Shale Plays



Source: EnVantage, Morgan Stanley Research

Exhibit 65

Petrochemical Projects Under Review

LAPansions	Depottiene	ecking (KT)	Greenneiu	
2012	2013e	2014e	2015-2020e	
			1,500	Chevron Phillips (CP Chem)
	193	193	1,500	Dow Chemical
130	100	385		LyondellBasell
			800	Formosa
57	58			INEOS
			550	Oxy Chemical
			1,050	Braskem
			1,200	Sasol
			1,000	Shell
30	110	80		Westlake
27	70	210		Williams
			250	Nova
	200			BASF
244	731	868	7,850	

Source: Company data, Morgan Stanley Research, CMAI

Demand for NGL feedstocks has a constructive outlook, but supply is expected to outpace demand until 2016. According to our commodities team and Mr. Fasullo, the US ethylene industry's ability to crack ethane exceeds domestic producers' ability to supply it. Moreover, the ethylene industry is likely to add another ~200 MBPD of ethane cracking ability in the next 2 years. Expansions are being considered on the US Gulf Coast for world-scale plants, potentially adding another 60-80 MBPD of ethane cracking ability by 2016-18.

Ethane price driven by opportunity cost of heavier feed-

stocks. As long as ethane cracking capacity exceeds supply, the market will price ethane to encourage maximum usage (i.e., at a discount to traditional heavier feeds, after factoring in byproduct co-credits). In an oversupply situation, ethane will fall to parity with natural gas (\$0.30-0.35/gal at \$4.00 natural gas).

Export markets have potential. Over time, export infrastructure for ethane will likely expand; there is likely pent-up demand from Western Europe, Canada, and Mexico, which currently cannot access the US ethane markets.

Cost advantaged feedstock supports high utilization

rates. North America is running at 100% effective utilization. Cheaper feedstocks and high petrochemical prices have pushed the industry to run as hard as it can. Industry data shows production reaching 94-95% of nameplate capacity in recent months, given normal maintenance and unplanned outages. In other words, there is likely not much upside to operating rates.

Capacity is increasing gradually in the near term. In 2012-14, a total of ~1,000 kMT of capacity is likely to come online through the combination of debottlenecking efforts, Brownfield expansions, and restarts of old capacity. Together, these represent the equivalent of a single world-scale ethylene cracker, or ~50 MBPD of ethane.

New projects could add significantly to ethane demand. Five companies have announced intentions or exploratory efforts to build new ethylene crackers in the US, the earliest of which would likely be Formosa or Chevron Philips (CP Chem) starting up in late 2015. While we do not expect all of these projects to be completed, we are comfortable that there is sufficient appetite to grow ethane demand to meet supply.

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Exhibit 66

US Fractionation Capacity by Region (2010)

Fractionation facilities tend to be located near areas of high petrochemical demand (Gulf Coast region)



3. Mont Belvieu

- 5 Fractionators
- Total Capacity: 898 MBPD
- Est. Throughput: 838 MBPD

- Est. Ethane Fractionated: 349 MBPD

4. South Texas - Sweeny

- 11 Fractionators - Total Capacity: 349 MBPD
- Est. Throughput: 270 MBPD
- Est. Ethane Fractionated: 118 MBPD

5. Permian Basin

- 2 Fractionators
- Total Capacity: 130 MBPD - Est. Throughput: 120 MBPD
- Est. Ethane Fractionated: 58 MBPD

Source: En*Vantage, Morgan Stanley Research

Exhibit 67

How to Calculate a Fractionation Spread

In this example, it is economic to extract NGLs. However, the frac spread can go negative. When this happens, processors/frac plant operators can switch their plants to "ethane rejection" mode.

		Α	В		C = A / B	D	E	E= C * D
	C F	urrent Prices (\$/gal)	Conversion Factor (Mmbtu/gal)		Converted Price (\$/Mmbtu)	Composition of NGL Barrel	V (\$.	/alueof NGLs /Mmbtu)
Ethane (C2)	\$	0.29	0.0664	\$	4.34	40%	\$	1.73
Propane (C3)	\$	0.92	0.0916	\$	10.03	30%	\$	3.01
Normal butane (NC4)	\$	1.41	0.1037	\$	13.60	10%	\$	1.36
Isobutane (C4)	\$	1.40	0.0997	\$	14.04	5%	\$	0.70
Natural gasoline/condensate (C5)	\$	2.13	0.1122	\$	19.02	15%	\$	2.85
					Total Value of N	NGLs (\$/Mmbtu)	\$	9.66
					Total Value of	NGLs (\$/gallon)	\$	0.92
					Value of natura	Igas (\$/Mmbtu)	\$	3.57
				FR	ACTIONATION SPE	READ (\$/Mmbtu)	\$	6.09
				FR	ACTIONATION SPE	READ (\$/gallon)	\$	0.53

Source: Morgan Stanley Research



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Ethane Price Dynamics

Ethane pricing: a complex interaction. Ethane prices are determined by the relative balance of ethane supplied by natural gas processing plants and ethane demanded by petrochemical plants as a feedstock in the production of ethylene. Approximately 98% of ethane supply is derived from the extraction of ethane from natural gas by processing facilities, while a roughly equivalent percentage of demand is determined by ethylene steam cracker selection of ethane as a feedstock. As a result, rich natural gas production, ethylene steam cracker utilization rates, and ethane feedstock selection levels by ethylene steam crackers are the key factors determining ethane prices. Both domestic and global ethylene and ethylene derivative markets influence these production decisions, and within that supply-demand construct, there are broad conceptual parameters that help define the pricing of ethane.

Natural gas - a floor for ethane pricing. Natural gas serves as an effective floor for ethane prices, as ethane needs to be priced at a positive spread to methane (alternatively referred to as a processing spread, fractionation spread or keep-whole margin) to make it economic to strip ethane from natural gas beyond contractual requirements to meet pipeline specifications (BTU content, hydrocarbon dew points, contaminant levels, etc.). In periods of negative ethane spreads, it becomes uneconomic under certain contracts to strip ethane from the natural gas, with processors electing instead to sell the resulting higher BTU commingled product as natural gas. In periods of positive spreads, the ethane is extracted to realize its higher relative pricing as a purity product, reducing the residue gas that remains. Although negative ethane spreads occur at certain times and in certain geographies, these occurrences generally do not sustain themselves as supply rebalances itself through processing decisions.

Crude oil – a ceiling for ethane pricing. Crude oil, in general, serves as a ceiling for ethane given that naphtha, a crude oil derivative, is a competing feedstock for ethylene production along with propane, which can be sourced from both natural gas and crude oil (ethane comprises roughly 55% of ethylene feedstock, propane 25% and naphtha 15%). Ethylene steam crackers will select feedstock based upon cash costs, in effect requiring ethane to sell at a cost advantage relative to naphtha to maintain its attractiveness. Feedstock selection will also be derived by co-product values (each feedstock yields different products, with ethane producing a significantly higher ethylene yield – +80% – than other feedstocks). In practice, ethane will generally trade at a significant

discount to crude oil given the latter's much wider range of end-markets (ethane is essentially a one-market product) and relative scarcity to its respective demand. The 20-year average ethane/crude oil ratio is 47% on an energy equivalent basis. Although it fell closer to 40% in recent years, it dropped to ~11% at 2012 end and could continue to vary widely at any given time.

Ethane margins are important to watch. With most ethane production sourced from natural gas production through fractionation, ethane must be priced to incentivize its extraction and conversion in this additional processing step. Looking at the relative pricing of natural gas and ethane (per mmbtu), processors can strip ethane from the gas steam or leave those volumes in the mix to sell as higher-btu content gas. If ethane production, thus setting an effective pricing floor at gas parity. E&Ps focus on "liquids-rich" resource plays has raised concerns for investors that NGLs are the next natural gas — and that the industry is likely to oversupply the product and drive profitability/returns down toward this parity level.

The need to gather and process wet gas to extract liquids means development will be staged and deliberate. While we acknowledge the potential for regional and timing dislocations between supply and demand, we do think capital requirements and infrastructure needs will make development more rational. This also supports the view that dominant, early movers in each basin with a credible (either third party or in-house) gathering and processing strategy is likely the best investment strategy within the upstream.

Exhibit 68

Ethane Margins (\$/mmbtu)



Producers will typically strip ethane from the gas stream as long as margins are positive

Jan-03 Nov-03 Oct-04 Aug-05 Jul-06 Jun-07 Apr-08 Mar-09 Jan-10 Dec-10

Source: Bloomberg, Morgan Stanley Research

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Exhibit 69

Estimation of Ethane Balances

Estimation of Ethane Balances as of April 3, 2013												
			Ac	tual			Forecast					
	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13
	MBPD	MBPD	MBPD	MBPD	MBPD	MBPD						
C2 Extraction from Gas Processing (EIA)	934	984	989	998	916	902	915	920	930	950	965	965
Refinery C2 Sold in Open Mkt (EIA)	13	12	14	12	11	12	13	13	13	13	13	13
Total EIA C2 Production	947	996	1003	1010	927	914	928	933	943	963	978	978
Estimated Internal Refinery C2 Production	20	20	20	20	20	20	20	20	25	25	25	25
Total Estimated Ethane Production	967	1016	1023	1030	947	934	948	953	968	988	1003	1003
Exports to Canada	13	15	15	15	10	14	14	14	14	14	14	14
Ethane Supplies Available to US Crackers	954	1001	1008	1015	937	920	934	939	954	974	989	989
Ethane Cracking to Make Ethylene	935	965	946	965	975	960	960	960	940	970	980	990
Other Ethane Demand (Blending into Propane)	15	20	20	20	20	20	20	20	20	20	20	20
Total Ethane Demand	950	985	966	985	995	980	980	980	960	990	1000	1010
Surplus (Deficit) C2	4	16	42	30	(58)	(32)	(46)	(41)	(6)	(16)	(11)	(21)
Implied Monthly Change (MM Bbls)	0.12	0.50	1.30	0.90	(1.80)	(1.00)	(1.29)	(1.27)	(0.18)	(0.50)	(0.33)	(0.63)
Actual EIA Inventory Change (MM Bbls)	0.47	1.31	0.00	1.21	(1.84)	(1.34)	NA	NA	NA	NA	NA	NA
Actual EA Inventory Level (MM Bbls)	32.29	33.60	33.60	35.72	33.88	32.53	31.24	29.97	29.79	29.30	28.97	28.34
Unaccounted for Ethane or Balancing Item	11	27	(42)	10	(1)	(11)	0	0	0	0	0	0
One of the second												

Source: En*Vantage, Morgan Stanley Research

Exhibit 70

US NGL Extraction By Component

US NGL Extraction By Component								
	Month over Month Comparison				Y	ear over Ye	ar Comparis	on
NGL Extracted	Nov-12 MBPD	Oct-12 MBPD	M/M Change MBPD	WM Change %	Nov-12 MBPD	Nov-11 MBPD	Y/Y Change MBPD	Y/Y Change %
Ethane	998	989	9	0.9%	998	985	13	1.3%
Propane	758	739	19	2.6%	758	662	96	14.5%
N-Butane	187	192	(5)	-2.6%	187	160	27	16.9%
I-Butane	244	233	11	4.7%	244	227	17	7.5%
Natural Gasoline	329	332	(3)	-0.9%	329	308	21	6.8%
Total US NGLs (MBPD)	2,516	2,485	31	1.2%	2,516	2,342	174	7.4%

Source: En*Vantage, Morgan Stanley Research

Exhibit 71

Ethane Extraction Analysis

Ethane Extraction Analysis for Dec. 2012							
Region	Avg 2012	Max 2012	Month that Max	Actual Dec	Implied Nov	Dec C2 Frac	
	IVIDPD	IVIBPD	Occurred	IVIBPD	Rejection MBPD	Spreau (cents/gal)	
Texas Inland	406	461	Nov	439	(22)	(4.78)	
Texas Gulf Coast	61	68	Nov	66	(2)	(2.16)	
LA. Gulf Coast	86	96	Mar	88	(8)	(3.34)	
N. LA./Ark	5	5	-	5	0	(3.34)	
New Mexico	77	83	Jan	76	(7)	(7.74)	
Rocky Mountain	173	208	Mar	102	(106)	(10.87)	
Mid Continent	125	142	Apr	113	(29)	(8.05)	
Upper Midwest	38	56	Jan	25	(31)	(8.91)	
Other	1	1	-	1	0	0	
Total US	972	1,120		915	(205)		

Source: En*Vantage, Morgan Stanley Research

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NGL Midstream Build-Out Continues

We expect a staged and deliberate development of midstream infrastructure. We expect outperformers to be the dominant, early movers in each basin with credible gathering and processing (G&P) strategies (either third party or inhouse). In addition to G&P, we see opportunities in import/export terminals, ethane distribution systems and a Marcellus ethane solution. Outside of these opportunities, we believe the possibility of overbuilding exists, particularly in NGL pipelines and fractionation.

We believe NGL supply and demand will be in balance in the long term. However, near-term imbalances can occur given regional bottlenecks (supply side) and steam cracker outages (demand side). We expect additional opportunities to be concentrated around supporting the development of new liquids rich plays such as the Marcellus, Eagle Ford, Utica, Niobrara and Bakken.

Potential bottlenecks that are likely to create opportunities for midstream service companies:

- *Gathering & processing:* Production growth in new liquids rich plays, such as the Permian, Marcellus, Eagle Ford, Bakken, will support the need for investment in Gathering and processing infrastructure. Industry expects the construction of an additional 15BCFD of gas processing as highly likely by 2015, with 37% of capacity built in the Marcellus and Utica
- Import/export terminals: Sustainable NGL production at a low cost could support the economics of construction additional NGL import/export facilities. Targa announced an export project at its Galena Park Marine export/import terminal on the Houston Ship Channel. The \$250m project is expected to be complete by 3Q13. The new project will have the ability to load 5,000bbls/hr of fully refrigerated, low eth-

ane propane as well as butanes. It is expected to load 3 to 4 VLGC ship per month. Additionally, Enterprise expandedits LPG export capacity by Q42012 at its facility on the Houston Ship Channel from 3MMbbls / month to 7.5MMbbls/month Additionally, SXL is moving forward with the Mariner East project. This project connects Southwest Pennsylvania to the Marcus Hook facility near Philadelphia, and has initial capacity of 70 MBPD. Production is supported by a 15-year agreement with RRC to serve as anchor shipper on Mariner East for firm transportation of 40 MBPD. This project marked an important step in the development of new markets for ethane and propane production in the emerging Marcellus and Utica shales, signaling the beginning of ethane export to Europe. Propane transport is expected to begin in 2H 2014 while both ethane and propane in 1H 2015. In combination with potential new domestic world-scale ethylene cracker construction, a credible case is building for substantial new ethane demand to develop as we move into 2015 and beyond (potentially up to a doubling of existing demand).

- Ethane distribution systems need to be built: Additional distribution capacity to the petrochemical plants needs to be built to move more ethane to the plants along the gulf coast.
- Marcellus ethane solution: Three Marcellus Ethane projects are moving forward: Mariner West Project, EPD ATEX Express pipeline, and the Mariner East Project. While numerous projects were proposed, the ultimate winners benefitted from leveraging existing assets. Mariner West should alleviate the ethane constraint in the Marcellus, when it begins transporting 65kbpd of ethane to Sarnia, while ATEX pipeline will allow up to 190kbpd of ethane to Mt. Belvieu. Meanwhile, the Mariner East project (Southwest Pennsylvania to Marcus Hook facility near Philadelphia) has initial capacity of 70 MBPD.

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Exhibit 72

Proposed NGL Pipelines address current NGL pipeline constraints

Company Name	Project	Capacity (,000 bpd)	Distance (miles)	CAPEX \$m	Location/s	In Service
2012						
OneOK	Arbuckle	60	440		Barnett Shale- Oklahoma to Mt. Belvieu, TX	2Q12
Energy Transfer & Regency JV (Lone Star NGL)	West Texas Gateway Expansion	200/350	720	\$1,000	Permian Basin Shale to Mont Belvieu, TX	1Q13
DCP Midstream	Sand Hills	209	570	\$920	Permian Basin & Eagle Ford Shale to Mt. Belvieu, TX	3Q12
2013						
CrossTex Energy	Cajun-Sibon Extension	70	130	\$230	Mont Belvieu, TX to Acadia, LA	1Q13
OneOk & Williams	Overland Pass	115	760	\$575	Southern Wyoming to Conway, KS	1Q13
Enterprise Products	Yoakum	140	169		Eagle Ford Shale to Mont Belvieu, TX	2Q13
OneOk	Bakken	60	525		Bakken Shale to Overland Pass Pipeline	2Q13
Enterprise, Enbridge and Anadarko	Texas Express (TEP)	250/400	580		Skellytown, TX to Mont Belvieu, TX	2Q13
DCP Midstream	Southern Hills	150	720	\$1,000	Conway, KS to Mont Belvieu, TX	2Q13
Mistral Energy	Vantage Pipeline	45/65	430	\$240	Tioga, ND to Empress, Alberta	2Q13
Crosstex	Cajun Sibon NGL Pipeline	70	440	\$680 to \$700	Mt. Belvieu to Louisiana	1H13
OKS	Bakken NGL Pipeline	60	525 -615	\$450 to \$550	Bakken to Southern WY	1H13
OKS/WPZ	Overland Pass	60	750		Southern WY to Conway, KS	1H13
MWE/SXL	Mariner West	50			PA to Sarina, Ontario	3Q13
DCP Midstream	Sand Hills Pipeline	200/350	720	\$433	Permian to Mt. Belvieu	3Q13
OneOk	Sterling III	193	570	\$610 to \$810	Woodford Shale/ Granite Wash to Mont Belvieu, TX	4Q13
Enterprise, Anadarko and DCP Midstream	Front Range	150/230	435		DJ Basin/Niobrara to Skellytown, TX	4Q13
2014						
Enterprise	Mid- America Pipeline	65	218		San Juan Basin to Hobbs, NM	1Q14
Enterprise	Enterprise Eagle Ford	300	300		Eagle Ford to Mt. Belvieu	1Q14
Enterprise	ATEX Pipeline	125/190	1230		Marcellus to Mt. Belvieu	1Q14
EPD	Mid- America Pipeline	65	218		Rockies to Hobbs, NM	3Q14
OKS	Bakken NGL Pipeline	75	525	\$450 to \$500	Bakken to Southern WY	3Q14
MWE/SXL	Mariner East	65			West PA to East PA	2H14
Source: Company Data, Morgan Stanl	lov Posoarch					

Source: Company Data, Morgan Stanley Research

Exhibit 73

Export Projects

	(MBPD)	(\$m)			
Pipelines	Capacity	CAPEX	In Service	Origin	Destination
Vantage	45	240	3Q12	Bakken	Alberta
Mariner West	65	NA	2H13	Marcellus	Sarnia
Cochin	40	NA	2Q12	NA	Sarnia
LPG Export					
Enterprise	250	NA	4Q12	Houston	International
Targa	5,000 bbl/hr	250	3Q13	Houston	International
Mariner East Source: Company Data, Morgan Stanley Research	65	NA	NA	Philadelphia	International

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Operating Regulatory Environment

Paradigm shifts in regulations have created today's more market-based resource transportation businesses. Since the 1930s regulators have been concerned with monopolies in natural gas transportation because infrastructure assets tend to create a natural monopoly. Earlier laws with extensive anti-competitive price controls caused severe shortages of natural gas, particularly in the 1970s. While these monopoly power concerns still exist today and rates, access, and construction fall under federal oversight, competitive forces have made the space much more efficient.

Unbundling of transportation and merchant services further improved natural gas market efficiencies. The implemented "open access" of transportation to all pipeline customers ended the discriminatory practices of pipeline operators choosing to serve their own merchant businesses at the detriment of other customers. These late 80s and early 90s regulations improved prices as well as service for the end user with these conflicts eliminated.

The FERC is the principal regulator in this space. The transmission and sale of natural gas for resale in interstate commerce fall under the FERC's regulation, and thus MLPs find their revenues largely within government parameters, but also protected.

Natural gas pipelines. These use long-term take-or-pay 10 year contracts where companies who reserve capacity must pay regardless of throughput. However, the FERC regulates the amount of the tariffs and allowable rate of return of these companies. Posted tariffs establish the minimum and maximum rates a pipeline can charge shippers, within which range a pipeline may charge discounted rates to respond to competitive forces provided such discounts are offered to similarly situated shippers and provided without undue discrimination. Pipelines are also free to establish negotiated rates that offer certainty to both parties.

• Liquid pipelines. (Refined products/Crude oil/Natural Gas Liquids NGLs) pipelines: interstate common carrier pipelines regulated under FERC, whose oversight includes rates, terms and conditions of service as well as certification, construction and operation of new facilities and acguisition, extension, disposition or abandonment of such facilities. Facilities must maintain tariffs on file with FERC that are "just and reasonable" and nondiscriminatory (i.e., open access). Interested persons are allowed to challenge rates and FERC is authorized to revise rates prospectively and require refunds during course of investigation if rates are deemed unlawful. As a general rule, these pipelines are required to use an annual indexing methodology to adjust rates that resets the maximum annual adjustment to PPI-FG + 1.3%. In certain circumstances, however, FERC will use cost-of-service ratemaking, market-base rates and settlement rates as alternative methodologies.

State regulation. Intrastate midstream infrastructure is subject to state regulatory agencies in their respective jurisdictions. These agencies govern a broad range of matters, including rate setting, marketing, production, environmental issues and worker/community safety. State statues tend to be less onerous, but their impact to MLPs can vary considerably. They generally require published tariffs detailing all applicable rates, rules and regulations, with rates and practices both reasonable and nondiscriminatory.

Safety regulation. Interstate pipelines are subject to regulation by the US Department of Transportation (DOT) regarding pipeline design, installation, testing, construction, operation, replacement and management. Terminal loading facilities are subject to US DOT regulations involving transport of hazardous materials by motor vehicles and railcars. States also govern safety regulations for intrastate pipelines in a similar fashion to the US DOT. Offshore assets fall under regulation by FERC and other federal agencies including the Department of the Interior and DOT.

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INGAA Midstream Infrastructure Study Key Takeaways

Summary Findings of INGAA Study

Study purpose and methodology. The Interstate Natural Gas Association of America (INGAA) recently published a study: North American Natural Gas Midstream Infrastructure through 2035: A Secure Energy Future, in which the organization presented its detailed outlook for new midstream infrastructure capital investment needs over the coming decades. The study was undertaken as an update to the INGAA Foundation's 2009 infrastructure study, expedited to address the rapid development of emerging natural gas shale plays, while also accounting for the midstream infrastructure required for growth in crude oil and NGL production. The analysis establishes a reference case of detailed supply and demand projections for North American energy markets bracketed to account for variability - and then endeavors to identify existing infrastructure deficiencies that will need to be addressed through new capital investment to meet these market trends. The study accounts for both the level of new infrastructure required and the geographical dispersion of the infrastructure as supply and demand patterns evolve.

INGAA estimates that \$251 billion (real 2010\$) of new capital investment is needed over the next 25 years to meet the midstream infrastructure requirements of growing shale resource development in North America. New technology (horizontal drilling, hydraulic fracturing) unlocking vast quantities of new natural gas supply, in combination with growing demand in particular from the power sector, necessitate a substantial undertaking of sustained new investment in incremental midstream infrastructure to support these market trends. In combination with new crude oil and NGL midstream infrastructure needs, this \$251b of new investment translates to \$10b/year of average capital expenditures.

Of this total, \$205 billion of investment will be needed for natural gas midstream infrastructure specifically. The largest components of this investment are natural gas pipelines (mainline transmission, gathering, laterals) and processing.

Spending needed in a variety of geographies. Regions requiring the greatest new investment include the Southeast, Northeast, Southwest and Canada.

Exhibit 74

INGAA Projected Midstream Capital Investment

Summary of study conclusions

New Infrastructure Requirements	2011 - '20	2011 - '35	Annual Avg.
Natural Gas Infrastructure			
Inter-regional pipeline capacity	29 Bcf/d	43 Bcf/d	1.7 Bcf/d
Miles of transmission pipeline	16,400	35,600	1,400
Miles of laterals to/from power plants, storage fields and processing plants	6,600	13,900	600
Miles of gathering line	165,000	414,000	16,500
Inch-miles of transmission mainline	491,000	1,043,000	42,000
Inch-miles of laterals to/from power plants, storage fields and processing plants	142,000	304,000	12,000
Inch-miles of gathering line	592,000	1,518,000	61,000
Compression for pipelines	3,039,000 HP	4,946,000 HP	197,000 HP
Gas storage	NA	589 Bcf	24 Bcf
Processing capacity	18.1 Bcf/d	32.5 Bcf/d	1.3 Bcf/d
NGL Pipeline Infrastructure			
Miles of transmission pipeline	10,600	12,500	500
Oil Pipeline Infrastructure			
Miles of transmission pipeline	13,000	19,300	800
Capital Investment Required (\$ in billions)	2011 to 2020	2011 to 2035	Annual Avg.

Capital Investment Required (\$ In billions)	201	1 10 2020	20	1110 2035	~	innuai Avy.
Natural Gas Infrastructure						
Gas transmission mainline	\$	46.2	\$	97.7	\$	3.9
Laterals to power plants, storage and processing		14.0		29.8		1.2
Gathering line		16.3		41.7		1.7
Gas pipeline compression		5.6		9.1		0.3
Gas storage fields		3.6		4.8		0.2
Gas processing capacity		12.4		22.1		0.9
Total	\$	98.1	\$	205.2	\$	8.2
NGL Pipeline Infrastructure						
Cost of transmission mainline (2010 \$)	\$	12.3	\$	14.5	\$	0.6
Oil Pipeline Infrastructure						
Cost of transmission mainline (2010 \$)	\$	19.6	\$	31.4	\$	1.3
Source: INGAA						

Exhibit 75

Potential Variables Impacting Market Growth Several variables could materially alter projections

	teral tariables seala ma	ionally alter projectione
	Big Market Movers	Smaller Market Movers
More Market Growth	Nat Gas passenger vehciles Nat Gas trucks Increased economic growth Increased electricity demand growth Increased LNG exports Reduced coal-fired capacity Gas-to-liquids Reduced nuclear capacity	Oil-to-gas conversions Increased industrial production Increased population growth Increased Alberta oil sands production Increased Alberta oil sands production Increased R/C customer growth Higher oil prices Natural gas hydrates
Less Market Growth	Limits on hydraulic fracturing Reduced economic growth Reduced electricity demand growth Increased coal-fired capacity Increased nuclear capacity	Modest Appalachia drilling constraints Increased shale production costs Rockies access restrictions GOM offshore access restrictions Decreased industrial production Decreased production growth Decreased R/C customer growth Lower oil prices
Sou	rce: INGAA	

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INGAA Natural Gas Midstream Infrastructure Capital Requirements Through 2035 Overview

Exhibit 76

Exhibit 77

INGAA Projected Changes in Gas Flows: 2010-2020

- ⇒ Mid-Continent shale gas production growth should support increased flows from Gulf Coast to Southeast.
- ⇒ REX Pipeline supports eastbound flows of Rockies gas.
- \Rightarrow Marcellus gas production should displace flows into Northeast.
- ⇒ Declining Alberta conventional production and rising gas consumption for oil sands development should prompt a decline in Western Canada imports to the US.

2010-2035

- ⇒ Substantial increases in outflows expected from the Mid-Continent shales and Rockies basins.
- ⇒ Marcellus gas production should displace flows into Northeast.
- ⇒ Flows from Western Canada recover moderately, but remain down over the long-term.

Regional Infrastructure Requirements

From 2011-2035, \$178b of projected new natural gas pipeline infrastructure is estimated to be needed, inclusive of gathering, mainline transmission and lateral pipeline as well as associated compression. Regionally, the largest investment is required in supply areas in the Southwest and Central regions, followed by the Southeast and Northeast demand regions that have access to growing supplies.

- \Rightarrow Southwest: \$38b (21% of total)
- \Rightarrow Southeast: \$35b (19% of total)
- \Rightarrow Central: \$34b (19% of total)
- \Rightarrow Northeast: \$26b (15% of total)

Projected Changes to Natural Gas Pipeline Flows Assumed supply pattern changes over next 25 years







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INGAA Natural Gas Pipeline Infrastructure Requirements

Natural Gas Pipelines

- ⇒ Through 2035, 43 Bcf/d of incremental pipeline capacity is needed to meet new interregional supply patterns.
- ⇒ Between 2005-2010, pipeline expenditures averaged \$8.8 per annum (2010\$) and are projected to range between \$4-13b through 2035. Roughly 50% of the \$178b total required pipeline investment (including compression) through 2035 is for transmission lines.
- ⇒ Pipeline costs are assumed to remain constant at \$90,000 per inch-mile (2010\$) in real terms through the forecast period, but rise in nominal terms from \$90,000 per inch-mile to \$170,000 per inch-mile.

Natural Gas Gathering Pipeline

- ⇒ The vast majority of needed new pipeline is gathering line, generally included in upstream project development planning. In aggregate, 414,000 miles of gathering pipeline are projected (16,500 miles per year on average) translating to 60,000 inch-miles at a total cost of \$42b (\$2b per year on average).
- ⇒ Approximately 30% of new gathering pipeline is projected to be needed in the Southwest, but significant growth is also expected in emerging shale plays in the Northeast (Marcellus Shale) and Canada (Montney, Horn River).



Regional Breakdown (1,000 Miles)

Natural Gas Mainline Transmission Pipeline

- ⇒ In aggregate, 35,600 miles of mainline transmission are projected (1,400 miles per year on average) translating to 40,000 inch-miles at a total cost of \$100b (\$4b per year on average).
- \Rightarrow Natural gas pipelines represent 705 of total required mainline expenditures, with crude oil comprising 21% and NGLs accounting for 9% of the \$153b total.
- ⇒ The Central region (which includes the Rockies) is expected to see the largest growth in mainline capacity, followed by the Southwest and Southeast regions, much of this necessitated by transport requirements of growing shale gas production.

Natural Gas Lateral Pipelines

- ⇒ In aggregate, 8,520 miles of lateral connections to power plants, processing plants and other facilities are projected (600 miles per year on average) translating to 10,000 inch-miles at a total cost of \$30b (\$1b per year on average).
- \Rightarrow Over the forecast period, 568 new gas power plant connections are expected to be needed, with each assumed to require 15 miles of 24" diameter pipeline.
- ⇒ Regional concentration in the South with the Southeast and Southeast comprising roughly half of new capacity builds.

Regional Breakdown (1,000 Miles)



Exhibit 80

Exhibit 78

Exhibit 79

Regional Breakdown (1,000 Miles)



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Exhibit 81

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INGAA Other Natural Gas Midstream Infrastructure Requirements

Natural Gas Processing

- \Rightarrow Through 2035, 32.5 Bcf/d of new processing capacity (240 plants) is projected to be needed at a total estimated cost of \$22b (\$900m annually).
- \Rightarrow Production growth from shale formations will require new infrastructure.
- ⇒ Primary areas of need will be the Southwest, Marcellus Shale and Western Canada (Montney, Horn River).

Natural Gas Processing Plant Additions

	Change in Gas		Additional	Gas Plant
Cumulative	Production	New Plants	Gas Plant	Expenditures
from 2010	(Bcf/d)	Added	Capacity (Bcf/d)	(2010\$ billions)
2015	9.1	81.0	10.4	\$7.1
2020	19.2	137.0	18.1	\$12.4
2025	25.6	175.0	23.1	\$15.8
2030	30.5	207.0	27.7	\$18.9
2035	36.0	238.0	32.5	\$21.2
Source: INGAA, Morga	n Stanley Research			

Natural Gas Storage

- \Rightarrow Through 2035, 589 Bcf of new gas storage capacity is projected to be needed at a total estimated cost of \$5b (\$200m annually).
- ⇒ A majority of new capacity needed to park growing gas supply until needed by the market, dictated by load changes across seasons and days.
- ⇒ Primary areas of need will be the Southwest, Marcellus Shale and Western Canada (Montney, Horn River).

Underground Natural Gas Storage Additions



Natural Gas Pipeline Compression

- ⇒ Through 2035, an average of 200,000 horsepower of compression per year (4,946,000 horsepower in aggregate) is projected to be needed at a total estimated cost of \$9b (\$300m annually).
- \Rightarrow Compression needs dispersed geographically where new pipeline infrastructure is needed.
- ⇒ Compression costs are assumed to remain constant at \$1,800 per horsepower (2010\$) in real terms through the forecast period, but rise in nominal terms from \$1,700 per HP to \$3,500 per HP.





Regional Breakdown (Bcf/d)

rn. 0.2. 1%

Exhibit 82 Regional Breakdown (Bcf)



Regional Breakdown (1,000 HP)

Exhibit 83



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INGAA Crude Oil & Natural Gas Liquids (NGL) Infrastructure Requirements

Crude Oil Pipelines

- ⇒ Through 2035, 19,300 miles of new crude oil mainline transmission pipelines (5 MMBPD of new capacity) are projected to be needed at a total estimated cost of \$31b (\$1.3b annually).
- \Rightarrow Average crude oil pipe size of new capacity is projected to be greater than 16" diameter.
- ⇒ Continuation of current trend to build crude oil pipelines shipping Western Canadian production (bitumen and synthetic crude production from oil sands to account for over 85% of regional production in 2035 versus 65% today) to Central US and Gulf Coast refineries is expected to continue.
- ⇒ Additional growth expected along the Pacific Coast to support exports from British Columbia ports and in the Rockies to provide takeaway capacity, the latter of which is expected to grow significantly (by 925 MBPD) led by the Bakken and Three Forks shale formations (North Dakota, Montana), the Niobrara Shale (Colorado), and Powder River and Green River basins (Wyoming, Colorado and Utah); additional strong production growth expected from the Eagle Ford Shale (South Texas), the Avalon, Bone Springs and Wolfberry plays (West Texas), the Utica Shale (Ohio, Pennsylvania and West Virginia), and other tight oil plays.
- ⇒ Production from all tight oil plays (oil shales and associated low permeability carbonates and sands) projected to reach 2,386 MBPD of crude oil and condensate by 2035.
- ⇒ Pipeline reversals likely also necessary on existing lines to facilitate changes in supply patterns.

NGL Oil Pipelines

- ⇒ Through 2035, 12,500 miles of new NGL mainline transmission pipelines (2 MMBPD of new capacity) are projected to be needed at a total estimated cost of \$15b (\$0.6b annually).
- ⇒ Average crude oil pipe size of new capacity is projected to be less than 16" diameter.
- ⇒ Rapid production growth in emerging shale and tight gas formations is staining existing infrastructure in areas such as the Eagle Ford Shale and Granite Wash.
- ⇒ Significant NGL infrastructure development already underway in Gulf Coast, West Texas and Oklahoma, where existing infrastructure already exists, to meet growth NGL production.
- ⇒ Approximately 80% of new NGL infrastructure requirements are expected to be in frontier shale plays like Marcellus, Utica, Bakken and Niobrara where limited existing capacity exists.







Exhibit 85 Regional Breakdown



Source: INGAA

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INGAA Natural Gas Supply Outlook

Exhibit 86

US & Canada Natural Gas Supply (Bcf/d)

Unconventional growth offsets onshore conventional decline and could comprise 2/3 of total supply by 2035



2009 2011 2013 2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035 Source: INGAA

Exhibit 88

US & Canada Shale Gas Supply (Bcf/d)

Shale gas development has continued despite recessionary economic environment



Exhibit 87

US & Canada Unconventional Gas Supply (Bcf/d)

40 Bcf/d increase by 2035, over 90% of which is attributable to shale gas



2009 2011 2013 2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035 Source: INGAA

Exhibit 89

North American Natural Gas Resource Base 4,000 Tcf of recoverable resource (50% shale gas), or

	•	0 //
140 years of supply at cur	rent consumption	levels

		Unproved Plus	Total	
	Proven	Discovered	Remaining	Shale
	Reserves	Undeveloped	Resource	Resource
Alaska	7.7	153.6	161.3	-
West Coast Onshore	2.3	24.6	27.0	0.3
Rockies & Great Basin	66.7	388.3	454.9	37.9
West Texas	27.6	47.7	75.3	17.5
Gulf Coast Onshore	70.1	684.7	754.8	476.9
Mid-Continent	37.0	205.0	241.9	133.9
Eastern Interior	18.6	1,053.7	1,072.3	986.1
Gulf of Mexico	14.0	238.6	252.5	-
U.S. Atlantic Offshore	-	32.8	32.8	-
U.S. Pacific Offshore	0.8	31.7	32.5	-
US TOTAL	244.7	2,860.6	3,105.3	1,652.5
WCSB	60.4	664.0	724.4	508.8
Artic Canada	0.4	45.0	45.4	-
Eastern Canada Onshore	0.4	15.9	16.3	10.3
Eastern Canada Offshore	0.5	71.8	72.3	-
Western British Columbia	-	10.9	10.9	-
CANADA TOTAL	61.3	807.6	868.8	519.1
US & CANADA TOTAL	306.0	3,668.1	3,974.1	2,171.6
Source: INGAA				

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INGAA Natural Gas Demand Outlook

Exhibit 90

US & Canadian Natural Gas Consumption (Bcf/d) 1.6% projected annual increase (110 Bcf/d average by

2035), 75% of which is driven by the power sector



2009 2011 2013 2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035 * Other includes lease, plant, and pipeline fuel gas use. Source: INGAA

Exhibit 92

Regional Gas Consumption

35 Bcf/d growth (47%) by 2035, led by Southeast, Northeast, Southwest and Canada

	2010	2020	2035	% growth
Northeast	11.3	14.3	17.9	58.4%
Southeast	10.1	15.4	19.9	97.0%
Midwest	10.7	12.5	14.0	30.8%
Central	5.2	6.3	7.3	40.4%
Southwest	16.6	20.1	22.2	33.7%
Western	9.0	9.2	9.5	5.6%
Offshore	0.3	0.2	0.3	0.0%
Arctic	1.2	1.3	1.5	25.0%
Canada	9.6	13.1	16.2	68.8%
US & Canada	74.0	92.3	108.8	47.0%
Courses INICAA				

Source: INGAA

Exhibit 91

Regional Demand Outlook

US demand growth driven by power generation while Canada includes gas used in oil sands extraction



Exhibit 93

Summary of INGAA Supply/Demand Outlook

Natural gas market reference case used to derive midstream infrastructure investment estimates (Tcf)

US & Canada	2010	2020	2035
Gas use in power generation	7.4	12.0	17.0
US & Canada natural gas consumption	27.0	33.6	39.7
Conventional onshore gas production	12.9	11.1	10.3
Unconventional onshore gas production	11.9	21.1	27.7
Offshore production	2.4	1.9	2.3
Shale gas production	4.6	12.6	18.9
Net LNG imports	0.5	0.6	1.0
Net exports to Mexico	0.3	0.5	1.1
US & Canada natural gas production	27.2	34.2	40.3
US only	2010	2020	2035
Natural gas power sector	7.4	10.8	14.8
US natural gas consumption	23.8	28.9	33.8
US natural gas production	21.3	27.5	33.1
Net imports (Canada + Mexico + LNG)	2.7	1.9	0.9
US natural gas supply	24.0	29.4	34.0
Henry Hub price (2010\$/Mmbtu)	\$4.38	\$5.59	\$7.15
Source: INGAA			

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Commodities

A commodity view is not necessary to invest in MLPs.

MLP asset bases and operations are distinctively positioned, unlike other energy companies, to weather bad times and prosper in good. MLPs are generally shielded from frequent commodity movements because of the following underlying asset characteristics: It is a must-operate asset (oil/gas needed for basic industrial and retail needs); protection derives from long-term contracts with creditworthy counterparties; high barriers to entry; and taking title to the commodity is generally not part of the operating strategy at the MLPs.

For the most part, MLPs operate a fee-for-service busi-

ness model. They are not paid on the price of natural gas or crude, and generally do not own the commodity. MLPs own demand-driven assets where volume and throughput matters. They typically fully contract new pipelines in "take of pay" contracts for terms in excess of 10 years.

Exhibit 94





It's all about the asset base. E&P assets are subject directly to commodity prices. G&P assets also potentially have some direct exposure. However, in recent years, we are seeing a shift towards a fee-based approach to operating strategy.

Pipelines and storage terminals do not have direct exposure.

Exhibit 95

MLP Correlation to Commodity Prices

Historically low correlations

Period	<u>Natural Gas</u>	<u>Crude Oil</u>
2012	-3%	41%
2011	17%	43%
2010	14%	55%
2009	20%	40%
2008	21%	49%
2007	1%	26%
2006	10%	36%
1999-2005	7%	15%

Source: Company data, Thomson Reuters, Morgan Stanley Research

MLP Assets with Direct Price Risk

Exploration & production. Revenues derived from crude oil and natural gas production are tied directly to the prices of the commodities. MLPs focused on upstream activities generally hedge commodity price risk tied to estimated production over a multi-year period to help manage this risk.

Natural gas processing. Contracts tied to natural gas and natural gas liquids prices leave processors directionally long the commodities (percent of proceeds, percent of liquids, percent of index) or long liquids-short natural gas (keep-whole). Margins for non-fee based contracts expand or contract based upon price realizations. Commodity price hedges are also used here to partially mitigate this risk, although NGL derivative markets tend to be less liquid than crude oil or natural gas markets in the out years.

Storage proprietary optimization activities. Marketing activities in which the storage owner takes title to the commodity (crude oil, refined products, natural gas, etc.) and attempts to capture time spreads (basis or quality differentials might also be arbitraged) give rise to direct commodity price risk. As spreads vary over time, so will the margins realized for these activities. Generally, MLPs engaged in storage optimization activities for their own account will enter into forward sales agreements to maintain a balanced book, eliminating exposure to negative spread risk.

MLP Assets with Volume Risk

Natural gas gathering and treating. Although generally feebased businesses, both gathering and treating are volumetrically exposed to production on wells from which they source supply. Continued drilling and well completion within close proximity to these assets are necessary to offset natural well depletion.

Liquids (crude oil, refined products, NGLs) pipelines.

Although tariffs tied to these pipelines are fee-based with generally minimal direct commodity price exposure, they also typically lack take-or-pay provisions that insulate against volume risk. Should demand for a particular pipeline's services fall at any given time, lower volumes could contribute to a decline in revenue.

Storage third-party activities. Similar exposure to that of liquids pipelines.

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MLP Valuation

The key value proposition is total return: growing cash flow yield + stock price appreciation. We rely on multiple methods to value MLPs that we believe properly treat them as true growth vehicles, rather than a fixed income substitute, as yield-based analysis has historically implied. More specifically, valuing MLPs based solely upon relative yield or yield estimates ignore the total return nature of MLPs. MLPs generate returns from capital appreciation and growth in distribution via new assets and projects. Additionally, we see longterm cash flow stability as another driver of stock value as investors prefer businesses models with the most stable cash flows. An example of which is the valuation differential between natural gas pipelines versus gathering and processing MLPs.

Dividend yield comparison gives some relative insights, but incomplete on overall valuation. Investors have traditionally valued MLPs as income-oriented instruments to make investment decisions. While this method provides largely a superficial perspective, it does not delve into the fundamental drivers of the MLP. For instance, a higher relative dividend yield characterizes companies believed to be riskier; a lower dividend yield can suggest growth in the company as the higher stock prices reflects the expected future growth. Ultimately this relative measures remains incomplete as it may omit both industry and idiosyncratic factors that can misconstrue the valuation conclusion.

Yield spread can give context to current position. Despite historical day-to-day insignificance, yield spread analysis provides a check on valuation. Overall, yields tend to revert to their mean, and even if we have modest yield compression, significant share price upside is possible. We believe Baa bonds offer a better way to track yield spreads. The more similar risk profile creates a better comparison versus the treasury. The factors of quantitative easing measures and "flights to quality" driven by investment fears have less impact on investment grade bonds. While these bonds provide a better track for yields, they still only serve as a check for our purposes.

Exhibit 96 MLP Yields / 10-Yr Treasury Spread



Source: Company data, Morgan Stanley Research

Exhibit 97 MLP Yields Closely Track Baa Bonds

Top 50 MLPs (not just MS under coverage)



Exhibit 98 MLP / High Yield Index Ratio

A higher ratio indicates MLP yields are cheaper (on a relative basis)





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Exhibit 99 AMZ Yield / 10 yr Treasury Yield Ratio

Higher ratio indicates MLP yields cheaper relatively



Source: Company Data, Morgan Stanley Research

Multiples provide valuation check. While we generally think it is difficult to target an EV (enterprise value) / EBITDA or P / DCF (distributable cash flow) multiple for an MLP stock, we think it certainly provides a gauge as to the stock's valuation. Currently, MLP multiples are near their historical average over time and we believe this provides another metric of valuation support along with looking at the high yield spreads and distribution growth.

Publicly traded multiples analysis: We looked at how EV/EBITDA, P/DCF, dividend yield, and the 10yr treasury spread correlated with stock returns over the last 5 years. We found that dividend yield was the "best predictor" on an R-squared basis. We derived multiples for each stock using forward-looking metrics, averaging the multiples to get a theoretical group multiple. Finally, we ran a regression against the average six-month forward stock returns to determine which multiple is "best" at predicting stock returns.

Distribution discount models (DDM): We use a 10-year DDM to arrive at our price targets along with our implied yield target for each individual MLP as we view long-term cash flow stability and growth as the true measure of an MLP stock's value. This methodology gives us a compound look at the overall cash flow generation ability of the enterprise. We project distribution based on our forward-looking assumptions of the asset base, we then generate an annual cost of capital that incorporates both the dividend yield and expected growth. After grossing up this value to account for the GP share we have a forward-looking cost of capital per year that we then average to generate an effective cost of capital for our valuation to arrive at the one year forward discounted per unit price. Like done for any other company, we base the value of an MLP on the risk of the future cash flow stream to the investor.

Exhibit 100 AMZ Yield / Baa Bond Yield Ratio



Source: Company Data, Morgan Stanley Research

Exhibit 101





Source: Company data, Morgan Stanley Research



Exhibit 102 EV/EBITDA Multiple Screens Elevated Currently

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Exhibit 103

Distribution Discount Model Example (OKS)

Discount Model		- 2	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Available distributable cash flow per unit		\$ 3	3.02	\$ 2.86	\$ 3.18	\$ 3.54	\$ 3.73	\$ 3.85	\$ 3.98	\$ 4.12	\$ 4.27	\$ 4.43	\$ 4.60
Actual paid distribution per unit		2	2.69	2.89	3.17	3.47	3.66	3.82	3.96	4.08	4.20	4.32	4.44
Coverage ratio		1	.25x	0.98x	1.00x	1.04x	1.04x	1.02x	1.01x	1.02x	1.04x	1.05x	1.07x
Paid distribution grow th rates				7.4%	9.7%	9.5%	5.5%	4.4%	3.5%	3.0%	2.9%	2.9%	2.8%
Terminal value of paid distribution													\$ 88.70
PV of paid distributions per unit				\$ 2.77	\$ 2.78	\$ 2.81	\$ 2.72	\$ 2.59	\$ 2.43	\$ 2.25	\$ 2.07	\$ 1.89	\$ 1.71
Sum of PV of paid distributions per unit	\$ 24.04												
PV of terminal value	34.20												
Equity value per unit	\$ 58.24												
Forecasted equity value per unit in 12 months	\$ 60.22												
Assumptions													
1-5 year CAGR	7.3%												
6-10 year CAGR	3.0%												

6-10 year CAGR	3.0%
Terminal equity trading yield	5.0%
Steady state coverage ratio	1.05
Average discount rate	8.0%
Terminal discount rate	10.0%

Source: Company data, Morgan Stanley Research estimates

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Glossary of MLP Terms

Cash Available (distributable cash flow, or DCF): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements.

Cash Distributed (distributions): Quarterly dividend payments made to limited partner (LP) and general partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

Distribution Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

General Partner (GP): Corporate sponsor, management team, or financial investor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

Federal Energy Regulatory Commission (FERC): The FERC is an independent agency that regulates the transportation of interstate natural gas, crude oil, and electricity as well as natural gas and hydropower projects.

Incentive Distribution Rights (IDRs): Increases in cash distributions entitle the GP to a higher percentage of the incremental distributed cash flows. These per unit target levels are set out specifically in the MLP agreement and give the GP a larger percentage of the incremental dollars (in many cases upwards of 50% of incremental cash payouts).

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate.

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated

by the partnership through a quarterly distribution. LPs typically cannot participate in making decisions regarding the operation of the MLP unless they secure a definitive majority (e.g., 66%, but it can vary) in a proxy vote.

Minimum Quarterly Distribution (MQD): The MQD is the minimum distribution the partnership expects to pay to its common and subordinated unit holders upon the partnership's consummation (assumes the partnership has the ability to generate sufficient DCF to do so).

Pipeline and Hazardous Materials Safety Administration (**PHMSA**): An agency with the US Department of Transportation that works to protect citizens and the environment by ensuring that the transmission of hazardous materials (including pipelines) are done in a safe and secure manner.

Publicly Traded Partnership (PTP): a master limited partnership (MLP) or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are roughly 75 publicly traded partnerships and the majority is involved in energy-related activities. Energy-related PTPs comprise approximately 85% of total PTP market cap, with REITs making up the majority of the 15% balance.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include 1) interest 2) dividends 3) real property rents 4) gains from the sale or other disposition of real estate 5) income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource 6) Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 7) Income and gains from commodities, if buying and selling commodities is the PTP's principal activity 8) Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).

Unrelated Taxable Business Income (UBTI): When a taxexempt entity (e.g. pensions, 401-K, and endowment funds) receive income from a MLP, it is considered to have been income earned from business activities unrelated to the entity's tax exempt purpose. As a result, the tax exempt entity may be held liable for the tax on the UBTI is it receives more than \$1,000 per year of UBTI.

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List of Publicly Traded Partnerships

Exhibit 104

Pipolines and Other Midstree	m Operation		LISA Compression Partners, LP	NVSE	
Access Midstream Partners I P	NYSE	ACMP	Western Gas Equity Partners LP	NYSE	WGP
American Midstream Partners, L.P.	NYSE		Western Gas Partners, LP	NYSE	WES
Atlas Pipolino Partnors I P	NVSE		Williams Barthors L B	NVSE	WPZ
Rucknight Energy Partners, L.P.	NASDAO	RKED			
Boardwalk Pipolipo Partners, L.P.	NVSE	BW/D	Exploration & Broduo	tion	
Buckovo Partnore, L.P.	NVSE	BDI	Atlas Enorgy J. P.	NVSE	ATIS
Control Energy Bortners, L.P.	OTC		Atlas Basouras Barthara L B	NVSE	
Central Energy Partners, L.F.			ResitRurn Energy Portners L.P.		
Compresses Borthors, L.P.			Constellation Energy Partners LLC	NASDAQ	
Compressed Parmers, L.P.	NASDAQ	GSJK	Constellation Energy Partners LLC	INT SE	
Copano Energy, L.L.C.	NASDAQ	VTEV	Dorchester Minerals, L.P.	NASDAQ	
Crosslex Energy, L.P.	NASDAQ		EV Energy Partners, L.P.	NASDAQ	EVEP
Crestwood Midstream Partners LP	NYSE	CMLP	Legacy Reserves LP	NASDAQ	LGCY
DCP Midstream Partners, LP	NYSE	DPM	Linn Energy, LLC	NASDAQ	LINE
Delek Logistics Partners, LP	NYSE	DKL	LRR Energy, L.P.	NYSE	LRE
Eagle Rock Energy Partners, L.P.	NASDAQ	EROC	Memorial Production Partners LP	NASDAQ	MEMP
El Paso Pipeline Partners, L.P.	NYSE	EPB	Mid-Con Energy Partners LP	NASDAQ	MCEP
Enbridge Energy Partners, L.P.	NYSE	EEP	New Source Energy Partners L.P.	NYSE	NSLP
Energy Transfer Partners, L.P.	NYSE	EIP	Pioneer Southwest Energy Partners, L.P.	NYSE	PSE
Energy Transfer Equity, L.P.	NYSE	ETE	QR Energy, LP	NYSE	QRE
Enterprise Products Partners L.P.	NYSE	EPD	Seadrill Partners LLC	NYSE	SDLP
EQT Midstream, LP	NYSE	EQM	Vanguard Natural Resources, LLC	NYSE	VNR
Exterran Partners, L.P.	NASDAQ	EXLP			
Genesis Energy, L.P.	NYSE	GEL	Propane & Refined Fuel Di	stribution	
Holly Energy Partners, L.P.	NYSE	HEP	Alon USA Partners, LP	NYSE	ALDW
Inergy, L.P.	NASDAQ	NRGY	AmeriGas Partners L.P	NYSE	APU
Inergy Midstream, L.P.	NYSE	NRGM	Calumet Specialty Products Partners, L.P.	NASDAQ	CLMT
Kinder Morgan Energy Partners, L.P.	NYSE	KMP	CVR Refining, LP	NYSE	CVRR
Magellan Midstream Partners, L.P.	NYSE	MMP	Ferrellgas Partners, L.P.	NYSE	FGP
MarkWest Energy Partners, L.P.	NYSE	MWE	Global Partners LP	NYSE	GLP
Martin Midstream Partners L.P.	NASDAQ	MMLP	Lehigh Gas Partners LP	NYSE	LGP
MPLX LP	NYSE	MPLX	NGL Energy Partners LP	NYSE	NGL
Niska Gas Storage Partners LLC	NYSE	NKA	Northern Tier Energy LP	NYSE	NTI
NuStar Energy L.P.	NYSE	NS	PetroLogistics LP	NYSE	PDH
NuStar GP Holdings, LLC	NYSE	NSH	Star Gas Partners, L.P.	NYSE	SGU
Oiltanking Partners, L.P.	NYSE	OILT	Suburban Propane Partners, L.P.	NYSE	SPH
ONEOK Partners, L.P.	NYSE	OKS	Susser Petroleum Partners LP	NYSE	SUSP
PAA Natural Gas Storage, L.P.	NYSE	PNG			
PVR Partners, L.P.*	NYSE	PVR	Marine Transportation	on	
Plains All American Pipeline, L.P.	NYSE	PAA	Capital Product Partners L.P.	NASDAQ	CPLP
Quicksilver Gas Services LP	NYSE	KGS	Golar LNG Partners LP	NASDAQ	GMLP
Regency Energy Partners LP	NYSE	RGP	Navios Maritime Partners L.P.	NYSE	NMM
Rose Rock Midstream, L.P.	NYSE	RRMS	Teekay LNG Partners L.P	NYSE	TGP
Southcross Energy Partners, L.P.	NYSE	SXE	Teekay Offshore Partners L.P.	NYSE	TOO
Spectra Energy Partners, LP	NYSE	SEP			
Summit Midstream Partners, LP	NYSE	SMLP	Royalty Trusts in PTP	Form	
Sunoco Logistics Partners L.P.	NYSE	SXL	ECT Marcellus Trust I	NYSE	ECT
Targa Resources Partners LP	NASDAQ	NGLS	Chesapeake Granite Wash Trust	NYSE	CHKR
TC PipeLines, LP	NYSE	TCP	SandRidge Mississippian Trust I	NYSE	SDT
Tesoro Logistics LP	NYSE	TLLP	SandRidge Mississippian Trust II	NYSE	SDR
TransMontaigne Partners L.P.	NYSE	TLP	SandRidge Permian Trust	NYSE	PER
				-	1

Source: NAPTP; Thomson Reuters, Morgan Stanley Research

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List of Publicly Traded Partnerships (continued)

Exhibit 105

Network Decour	Cool 8 (24ho z	Duff & Bholps Clobal Litility Income Fund	NVCE	DBC
Alliance Heldings GP P		AHCR	Energy Income and Growth Fund		EEN
Alliance Resource Partners I P	NASDAQ		Educiary/Claymore MLP Opportunity Fund	NVSE	FMO
CVP Partners, LP	NVSE		First Trust Energy Infrastructure Fund	NVSE	
Hi-Crush Partners I P	NYSE	HCLP	First Trust MI P and Energy Income Fund	NYSE	FEI
Natural Resource Partners L P	NVSE	NDD	Kayno Anderson Energy Development Company	NVSE	
Oxford Resource Partners LP	NYSE	OXE	Kayne Anderson Energy Total Return Fund	NYSE	KVE
Pope Resources	NASDAO	POPE	Kayne Anderson Midstream / Energy Fund	NYSE	KME
Rentech Nitrogen Partners I P	NYSE	RNF	Kayne Anderson MI P Investment Company	NYSE	KYN
Rhino Resource Partners I P	NYSE	RNO	Nuveen Energy MLP Total Return Fund	NYSE	JME
SunCoke Energy Partners P	NYSE	SXCP	Salient MI P & Energy Infrastructure Fund	NYSE	SME
Terra Nitrogen Company I P	NYSE	TNH	Salient Midstream & MLP Fund	NYSE	SMM
Tona Natogen Company, E.T.	INTOL		Tortoise Energy Capital Corp	NYSE	TYY
Real Estat	e - Properties		Tortoise Energy Infrastructure Corp	NYSE	TYG
New England Reality Associates J. P.	AMEX	NEN	Tortoise MLP Fund Inc	NYSE	NTG
NTS Realty Holdings I. P	AMEX	NIP	Tortoise North American Energy Corp	NYSE	TYN
The rearry rolange, 211			Tortoise Power and Energy Infrastructure	NYSE	TP7
Real Estate - M	ortgage Secu	rities	Tortoise Pipeline & Energy Fund Inc.	NYSE	TTP
American First Tax Exempt Investors	NASDAQ	ΑΤΑΧ			
Ellington Financial LLC	NYSE	EFC	MLP Exchange-Traded Funds a	nd Notes	
Municipal Mortgage and Equity, LLC	OTC	MMAB.PK	Alerian MLP ETF	NYSE	AMLP
······································			First Trust North American Energy Infrastructure Fund	NYSEArca	EMLP
Investment / Fin	ancial Manag	ement	Global X MLP ETF	NYSEArca	MLPA
Alliance Bernstein Holding L.P.	NYSE	AB	Global XMLP Junior MLP ETF	NYSEArca	MLPJ
Apollo Global Management, LLC	NYSE	APO	Yorkville High Income MLP ETF	NYSEArca	YMLP
The Blackstone Group L.P.	NYSE	BX	Credit Suisse Cushing® 30 MLP Index ETN	NYSEArca	MLPN
The Carlyle Group L.P.	NASDAQ	CG	iPath S&P MLP ETN	NYSEArca	IMLP
Compass Diversified Holdings LLC	NASDAQ	CODI	J.P. Morgan - Alerian MLP Index ETN	NYSEArca	AMJ
Fortress Investment Group LLC	NYSE	FIG	Morgan Stanley Cushing MLP High Income Index ETN	NYSEArca	MLPY
Icahn Enterprises, L.P.	NYSE	IEP	UBS E-TRACS Alerian MLP Infrastructure ETN	NYSEArca	MLPI
KKR & Co. L.P.	NYSE	KKR	UBS E-TRACS 1x Monthly Short MLP Infrastructure Inde	NYSEArca	MLPS
KKR Financial Holdings LLC	NYSE	KFN	UBS E-TRACS 2x Leveraged Long Alerian MLP Infrastru	NYSEArca	MLPL
Lazard, Ltd.	NYSE	LAZ	UBS E-TRACs Alerian MLP Index	NYSEArca	AMU
Oaktree Capital Management LLC	NYSE	OAK	UBS E-Tracs Alerian Natural Gas MLP Index	NYSEArca	MLPG
Och-Ziff Capital Management Group LLC	NYSE	OZM	UBS E-TRACS Wells Fargo MLP Index	NYSEArca	MLPW
Other E	usinesses		MLP Indexes		
Brookfield Infrastructure Partners L.P.	NYSE	BIP		AMZ (Price R	eturn, PR)
Cedar Fair, L.P.	NYSE	FUN	Alerian MLP Index	AMZX (Total I	Return, TR)
Royal Hawaiian Orchards, L.P.	OTCQX	NNUTU		AMZ I (PR)	, ,
StoneMor Partners L.P.	NASDAQ	STON	Alerian MLP Infrastructure Index	AMZIX (TR)	
	1	İ	Alexies Lenne Ore ladeu	ALCI (PR)	
Open-End	d MLP Funds		Alerian Large Cap Index	ACLIX (TR)	
ALPS Alerian MLP Infrastructure Index Fund	NYSEArca	ALERX, ALRCX, ALRIX	Alexies Cool Index	ACI (PR)	
Center Coast MLP Focus Fund	NYSE	CCCAX CCCCX, CCCNX	Alerian Cuai Index	ACIX (TR)	
Cushing® MLP Premier Fund	NYSE	CSHAX, CSHCX, CSHZX	Alexies E&D Index	AEPI (PR)	
Famco MLP & Energy Income Fund	NYSE	INFRX, INFIX	Alenan E&F Index	AEPIX (TR)	
Famco MLP & Energy Infrastructure Fund	NYSE	MLPPX	Alexies Network Cas Index	ANGI (PR)	
MainGate MLP Fund	NYSE	AMLPX, IMLPX	Alenan Natural Gas Index	ANGIX (TR)	
Oppenehimer SteelPath MLP Alpha Fund	NYSE	MLPAX, MLPGX, MLPOX	Alerian Petroleum Transportation Index	APTI (PR)	
Oppenheimer SteelPath MLP Income Fund	NYSE	MLPDX, MLPRX, MLPZX		APTIX (TR)	
Oppenheimer SteelPath MLP Select 40 Fund	NYSE	MLPFX, MLPEX, MLPTX, MLPYX	Citigroup	CITIMLP (PR)) CITIMLPT (TR)
Tortoise MLP & Pipeline Fund	NYSE	TORTX, TORIX	Cushing® 30 MLP Index	MLPX (PR) M	ILPXTR (TR)
			S& P. MI. P. Index	SPMLP (PR)	
Closed-End MLP and M	ILP-Related N	Iutual Funds	SAF WILF HILLEX	SPMLPT (TR)
ClearBridge Energy MLP Fund	NYSE	CEM	Tortoiso MLB Index	TMLP (PR)	
ClearBridge Energy MLP Opportunity Fund	NYSE	EMO		TMLPT (TR)	
ClearBridge Energy MLP Total Return Fund	NYSE	CTR	Welle Forge Securities 11 C MLB Index	WMLP (PR)	
Cushing MLP Total Return Fund	NYSE	SRV	Wens Largo Securities, LLC WILF Index	WMLPT (TR)	

Source: NAPTP; Thomson Reuters, Morgan Stanley Research

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Morgan Stanley Valuation & Comparables

Exhibit 106

MLP Comparables Table: Yield Fundamentals, Distribution Growth

			Recent	Target	Distrib	ution	1-year		4Q13e	Total		Distr Disc M	Nodel (DDM	2	Beta v.	S&P
		MS	Unit	Unit	run-	ate	Distr	Current	Distr /	return	Disc	Yrs 1-5	Yrs 6-10	Terminal	NYSE	Credit
Company	Symbol	Rating	Price	Price	4Q12	4Q13e	Growth	Yield	target	pot'l	Rate	CAGR	CAGR	Yield	52wk	Rating
Midstream MLPs:																
Large-cap diversified																
Enbridge Energy	EEP	U/w	\$29.73	30.00	2.17	2.25	3.7%	7.3%	7.5%	8%	8.5%	2.8%	1.6%	7.0%	0.69	BBB
Energy Transfer	ETP	E/w	\$48.25	53.00	3.58	3.82	6.7%	7.4%	7.2%	17%	9.4%	3.3%	1.8%	6.5%	0.69	BBB-
Enterprise Products	EPD	E/w	\$60.58	62.00	2.64	2.88	9.1%	4.4%	4.6%	7%	7.5%	7.8%	4.6%	6.5%	0.68	BBB+
Kinder Morgan Energy	KMP	E/w	\$90.25	90.00	5.16	5.36	3.9%	5.7%	6.0%	6%	9.1%	5.6%	2.4%	5.8%	0.48	BBB
ONEOK Partners	OKS	E/w	\$55.03	60.00	2.84	2.92	2.8%	5.2%	4.9%	14%	8.0%	7.3%	3.0%	5.0%	0.52	BBB
Plains All American	PAA	O/w	\$55.89	57.00	2.25	2.43	8.0%	4.0%	4.3%	6%	8.5%	8.8%	5.5%	5.0%	0.65	BBB
Williams Partners	WPZ	E/w	\$52.82	57.00	3.31	3.55	7.3%	6.3%	6.2%	14%	7.9%	6.4%	1.9%	6.5%	0.75	BBB
Natural gas pipeline																
Boardwalk Partners	BWP	U/w	\$30.13	28.00	2.13	2.13	0.0%	7.1%	7.6%	0%	10.3%	2.6%	3.1%	7.8%	0.57	BBB
El Paso Pipeline Partners	EPB	E/w	\$42.73	43.00	2.44	2.60	6.6%	5.7%	6.0%	6%	8.9%	7.2%	2.6%	6.0%	0.56	BBB-
Spectra Energy	SEP	U/w	\$37.43	37.00	1.98	2.10	6.1%	5.3%	5.7%	4%	8.3%	5.6%	1.5%	5.5%	0.43	BBB
TC Pipelines	TCP	U/w	\$49.10	43.00	3.12	3.16	1.3%	6.4%	7.3%	-6%	9.8%	2.1%	2.2%	7.3%	0.47	BBB
Refined products / Oil																
Buckeve	BPL	U/w	\$60.90	54.00	4.15	4.30	3.6%	6.8%	8.0%	-4%	11.5%	3.8%	3.0%	7.5%	0.63	BBB-
Genesis Energy, L.P.	GEL	NA	\$45.85	NA	1.95	2.15	10.3%	4.2%	-	-	-	-	-	-	0.78	BB-
Holly Energy	HEP	NA	\$40.73	NA	1.88	2.05	9.1%	4.6%	-	-	- I	-	-	-	0.56	BB
Magellan Midstream	MMP	E/w	\$52.04	52.00	2.00	2.24	12.0%	3.8%	4.3%	4%	9.6%	11.2%	6.0%	5.0%	0.65	BBB
MPLXIP	MPLX	0/w	\$36.82	39.00	1.05	1 25	19.0%	2.9%	3.2%	9%	8.3%	13.7%	7.4%	4.0%	0.00	N/A
NuStar	NS	1///	\$54.46	50.00	4 38	4 38	0.0%	8.0%	8.8%	0%	13.2%	3.2%	2.9%	8.5%	0.61	BB+
Oiltanking Partners		E/w	\$49.94	50.00	1.56	1.94	24.5%	3.1%	3.9%	3%	7 1%	9.2%	3.7%	4.0%	0.07	N/A
Boso Book Midstroom	DDMC	E/w	\$29.00	42.00	1.50	1.04	14.0%	4 19/	4 49/	1.29/	0 40/	12.0%	3.2%	F.0%	0.07	N/A
Suma as Legistics	CVI	E/w	\$30.50	42.00	2.10	1.00	19.3%	4.170	4.4 /0	12/0	0.470	11.0%	4 20/	4.0%	0.02	
Tagara Lagistica LD	3AL	E/W	\$03.5Z	65.00	2.10	2.50	10.3%	3.4%	4.0%	0%	0.2%	11.0%	4.3%	4.0%	0.56	DDD-
Cethoring & proceeding	ILLP	NA	⊅ 5∠.43	INA	1.91	2.20	19.4%	3.0%	-	-	-	-	-	-	0.08	DD-
Gathering & processing	4.01	= (605.04	07.00	0.00	0.00	45 50/	0.00/	7.00/	100/	44.000	0.50/	0.00/	7 50/		D .
Atias Pipeline	APL	E/w	\$35.21	37.00	2.32	2.68	15.5%	6.6%	7.2%	12%	11.8%	9.5%	3.2%	7.5%	1.04	B+
Access Midstream	ACMP	O/w	\$40.55	40.00	1.80	2.12	17.8%	4.4%	5.3%	3%	10.4%	12.6%	2.6%	4.9%	0.10	BB-
Copano Energy	CPNO	E/w	\$40.98	41.00	2.30	2.48	7.8%	5.6%	6.0%	6%	11.3%	5.1%	3.8%	6.8%	0.81	B+
Crestwood Midstream	CMLP	NA	\$24.92	NA	2.06	2.08	0.8%	8.3%	-	-		-	-	-	0.43	В
EQT Midstream Partners LP	EQM	NA	\$37.41	NA	0.80		-	2.1%	-	-	· ·	-	-	-	0.01	N/A
Crosstex Energy LP	XTEX	E/w	\$19.34	19.00	1.32	1.52	15.2%	6.8%	8.0%	5%	13.1%	7.2%	2.1%	7.0%	1.03	B+
DCP Midstream	DPM	E/w	\$47.10	48.00	2.77	2.93	5.8%	5.9%	6.1%	8%	8.8%	5.8%	2.7%	6.5%	0.76	BBB-
Markwest Energy	MWE	O/w	\$61.22	61.00	3.28	3.52	7.3%	5.4%	5.8%	5%	12.1%	11.9%	4.0%	7.0%	0.82	BB
Targa Resources	NGLS	E/w	\$46.78	45.00	2.72	2.96	8.8%	5.8%	6.6%	2%	10.4%	6.8%	3.5%	6.5%	0.92	BB
Regency Energy	RGP	E/w	\$26.07	25.00	1.84	1.88	2.2%	7.1%	7.5%	3%	9.2%	3.4%	4.3%	8.0%	0.86	BB
Summit Midstream Partners	SMLP	E/w	\$28.01	27.00	1.64	1.80	9.8%	5.9%	6.7%	2%	10.2%	6.7%	1.7%	6.0%	0.01	N/A
Southcross Energy Partners, L.P	. SXE	NA	\$20.53	NA	1.32	1.60	21.6%	6.4%	-	-	- 1	-	-	-	0.00	N/A
Western Gas	WES	E/w	\$57.36	58.00	2.08	2.40	15.4%	3.6%	4.1%	1%	9.9%	14.2%	7.3%	5.0%	0.46	BB+
General partners																
Atlas Pipeline Holdings	ATLS	O/w	\$45.42	55.00	1.20	2.40	100.0%	2.6%	4.4%	25%	16.0%	35.3%	8.6%	5.5%	1.22	N/A
Energy Transfer Equity	ETE	O/w	\$59.32	66.00	2.54	3.12	22.8%	4.3%	4.7%	16%	14.3%	14.2%	4.5%	5.0%	0.78	вв
Kinder Morgan Inc	KMI	E/w	\$38.78	42.00	1.48	1.64	10.8%	3.8%	3.9%	12%	10.0%	10.6%	7.8%	5.0%	0.14	N/A
NuStar GP Holdings	NSH	LI/w	\$33.61	32.00	2.18	2.18	0.0%	6.5%	6.8%	2%	15.0%	6.7%	5.0%	6.5%	0.62	N/A
Oneok. Inc.	OKE	0/w	\$49.40	55.00	1.44	1.64	13.9%	2.9%	3.0%	14%	-	-	-	-	0.99	BBB
Targa Resources Corp	TRGP	E/w	\$68.05	70.00	1.83	2.31	26.2%	2.0%	3.3%	6%	13.8%	20.8%	11.0%	4 5%	0.35	N/A
Western Gas Equity Partners	WGP	0/w	\$33.10	38.00	0.66	0.90	36.4%	2.0%	2 4%	1/1%	13.8%	70.5%	14.5%	0.4%	0.20	N/A
Williams Companies Inc	WMB	0/w	\$37.73	42.00	1 36	1.61	18.8%	3.6%	3.8%	15%	10.070	10.070	14.570	0.470	1.22	BBB
Creaster Energy be	VTVI	C/W	\$10.07	42.00	0.49	0.70	45.00/	0.070	2.5%	10%	14.00/	22 40/	6 90/	4 20/	1.33	NVA
Crosslex Energy Inc		L/W	\$10.27	20.00	0.40	0.70	40.076	2.0 %	3.5%	12/0	14.0 %	22.470	0.076	4.370	1.70	
Marine shipping	TOD	= (£ 40 70	44.00	0.70	0.70	0.00/	0.00/	0.40/	4 50/	7.40/	0.50/	4 00/	0.00/		N 1/A
Teekay LING Partners	IGP	E/w	\$40.76	44.00	2.70	2.70	0.0%	6.6%	6.1%	15%	7.1%	2.5%	1.3%	6.6%	0.73	N/A
Golar LNG Partners	GMLP	O/w	\$32.16	40.00	2.00	2.12	6.0%	6.2%	5.3%	31%	6.9%	8.5%	1.5%	7.9%	0.13	N/A
Other																_
Atlas Resource Partners	ARP	E/w	\$24.60	30.00	1.92	2.76	43.8%	7.8%	9.2%	31%	13.0%	19.8%	3.1%	10.0%	0.04	В
HI-Crush Partners L.P.	HCLP	E/w	\$19.55	19.00	1.90	2.14	12.6%	9.7%	11.3%	8%	17.1%	32.8%	1.3%	12.0%	0.01	N/A
Gas Storage																
Inergy, L.P.	NRGY	O/w	\$21.90	24.00	1.16	1.16	0.0%	5.3%	4.8%	15%	12.1%	3.8%	6.7%	6.5%	0.68	NR
Inergy Midstream LP	NRGM	E/w	\$23.84	25.00	1.74	1.74	0.0%	7.3%	7.0%	12%	10.9%	9.5%	3.2%	7.0%	0.03	BB
Niska Gas Storage	NKA	E/w	\$15.25	13.00	1.40	1.40	0.0%	9.2%	10.8%	-6%	11.6%	0.0%	0.0%	11.5%	0.09	BB-
PAA Natural Gas Storage	PNG	E/w	\$22.15	21.00	1.43	1.47	2.8%	6.5%	7.0%	1%	9.4%	4.5%	2.3%	7.2%	0.10	N/A
Ū.																
Average:							12.7%	5.4%	5.9%	8%	10.6%	10.9%	4.0%	6.3%	0.52	
Median:							8.4%	5.6%	6.0%	6%	10.0%	7.3%	3.2%	6.5%	0.56	

Source: Company data; Thomson Reuters; Morgan Stanley Research estimates, except for non-covered companies (INA), which are consensus estimates

Ratings: O/w = Overweight E/w = Equal-weight U/w = Underweight NA = Not applicable (not covered)

For valuation methodology and risks associated with any price targets above, please email morganstanley research@morganstanley.com with a request for valuation methodology and risks on a particular stock

MORGAN STANLEY RESEARCH

April 17 , 2013 Midstream Energy MLPs Primer

Exhibit 107

MLP Comparables Table: Market Valuation, EBITDA Multiples, Capex

		Equity	Total	52-W	/ Avg.	EV/EBITDA			(Ad	EV / Adjus	ted EBITD	A (haro)					No	t Dobt / To	tal Book C	20	To	tal Growth	Capex (\$r	n)	
Company	Symbol	(\$m)	(\$m)	(\$m)	y voi (000e)	13E	146	155	16F	(Au 13E		15F	165	13E	1/F	15E	16E	13E	1/F	15F	ap. 16⊑	13E	14E		16E
Midstream MI Ps:	Symbol	(\$111)	(\$11)	(șiii)	(0005)	136	140	IJE	IVE	IJE	140	IJE	TOE	IJE	146	IJE	IOE	IJE	145	IJE	IUE	IJE	146	IJE	TOE
Large-cap diversified																									
Enbridge Energy	EEP	\$9,005	\$14,491	\$26	880	13.7x	8.8x	7.4x	6.5x	17.2x	11.0x	9.4x	8.4x	5.3x	3.3x	4.3x	4.2x	55%	56%	57%	58%	2,250	1,750	1,750	1,750
Energy Transfer	ETP	\$14,631	\$26,616	\$82	1,708	9.0x	7.5x	7.2x	6.9x	13.8x	11.6x	11.3x	11.3x	4.2x	3.4x	3.9x	3.9x	54%	55%	57%	59%	1,750	1,750	1,500	1,000
Enterprise Products	EPD	\$54,686	\$71,137	\$76	1,249	16.2x	14.3x	13.5x	13.0x	16.2x	14.3x	13.5x	13.0x	4.1x	3.3x	4.1x	4.1x	58%	59%	61%	63%	4,000	3,250	2,500	2,500
Kinder Morgan Energy	KMP	\$29,882	\$48,539	\$69	769	11.5x	8.4x	7.4x	6.8x	21.3x	15.6x	13.9x	12.7x	4.1x	3.2x	3.6x	3.4x	62%	63%	64%	66%	2,750	1,500	1,250	1,250
ONEOK Partners	OKS	\$12,096	\$16,371	\$19	341	14.8x	10.6x	8.9x	8.2x	21.9x	15.6x	13.6x	12.7x	4.7x	2.8x	4.2x	4.2x	55%	56%	58%	59%	2,500	1,500	1,500	1,000
Plains All American	PAA	\$18,835	\$24,568	\$51	914	12.2x	10.6x	9.8x	9.1x	18.8x	16.3x	15.5x	14.6x	2.9x	2.5x	2.8x	2.8x	43%	43%	44%	45%	1,200	1,200	1,200	1,200
Williams Partners	WPZ	\$20,161	\$28,605	\$40	766	12.1x	9.1x	8.2x	7.5x	17.9x	13.4x	12.3x	11.6x	4.2x	2.7x	3.4x	3.4x	49%	51%	53%	55%	3,525	1,900	1,500	1,500
Natural gas pipeline																									
Boardwalk Partners	BWP	\$6,249	\$9,547	\$17	573	12.3x	11.2x	10.6x	9.9x	13.7x	12.5x	12.2x	11.6x	4.6x	3.9x	4.1x	3.9x	51%	53%	55%	57%	250	250	250	250
El Paso Pipeline Partners	EPB	\$8,790	\$13,253	\$20	466	10.3x	10.3x	9.8x	9.3x	14.6x	14.6x	14.2x	13.8x	4.2x	3.5x	3.7x	3.6x	68%	69%	71%	74%	510	510	160	100
Spectra Energy	SEP	\$3,747	\$4,089	\$7	192	17.4x	9.5x	7.4x	7.1x	21.9x	12.0x	9.8x	9.6x	2.0x	2.0x	4.1x	4.0x	37%	41%	42%	43%	708	1,627	477	52
TC Pipelines	TCP	\$2,627	\$3,309	\$5	102	20.6x	15.6x	15.0x	14.4x	21.0x	15.9x	15.3x	14.8x	3.2x	3.2x	2.6x	2.4x	34%	34%	33%	32%	5	8	8	8
Refined products / Oil																									
Buckeye	BPL	\$6,000	\$8,893	\$26	432	13.9x	12.8x	12.1x	11.4x	13.9x	12.8x	12.1x	11.4x	4.4x	4.2x	4.1x	4.0x	55%	56%	58%	59%	250	250	250	250
Genesis Energy, L.P.	GEL	\$3,721	\$4,555	\$11	244	17.3X	14.5X	12.7X	11.7X	-	-	-	-	4.0x	4.2X	4.0x	-	I NA	NA	NA	NA	I NA	NA	NA	NA
Holly Energy	HEP	\$2,389	\$3,217	\$5	117	14.7X	13.9X	13.5X	12.2X	10.44	15.04	15.04	14.04	4.0x	3.8X	3.8X		INA CCN/	NA 60%	NA 719/	NA 7.49/	NA 700	NA 200	NA 250	NA 250
Magellan Midstream		\$11,810	\$13,886	\$29	553	18.4X	15.9X	15.0X	14.2X	18.4X	15.9x	15.0x	14.2X	3.5X	2.4X	3.3X	3.3X	66%	69%	71%	74%	700	300	250	250
MPLA L.P.	NPLA	\$2,721	\$3,051	\$0	100	25.4X	20.4X	15.6X	12.98	20.0x	20.6x	10.0x	14.4x	1.9x	0.3X	0.2X	0.0X	570/	59%	51%	56%	395	253	460	360
Oiltopking Bottoorg		\$4,220 \$1,042	\$0,741 \$2,095	\$19	357	24.0x	10.3X	9.6X	9.2x	15.4X	10.9x	16.4	16.0x	0.0X	3.0X	4.9x	4.0x	37%	20%	39%	27%	140	120	250	250
Rose Rock Midstream	RRMS	\$653	\$657	φ2 \$1	20	17.0x	8.4x	1 Qy	3.32	18.1	8.97	5.5v	4.0x	1.0v	0.1x	2.1X	1.5X	18%	34%	/1%	11%	334	326	840	300
Supoco Logistics	SYI	\$6.612	\$8.281	\$15	220	10.1x	0.4X	4.5X	8.1x	15.1X	1/1 1	13.6v	13.0x	2.5x	1.8v	2.6x	2.7x	67%	67%	68%	68%	700	500	500	500
Tesoro Logistics LP	TIP	\$2,420	\$2,728	\$9	170	10.12	9.64	7.9x	7.2x	10.04	14.12	10.0x	10.04	2.04	1.0x	2.04	2.7 A	NM	NM	NM	NM	NA	NA	NA	NA
Gathering & processing	1001	ψ2,420	ψ2,720	ψ5	170		3.04	1.54	1.24									1 1 1 1	1 4141	1 NIVI	14101		110	19/3	19/3
Atlas Pipeline	API	\$1,982	\$3.148	\$16	445	14.0x	10.4x	8.7x	7.9x	14.0x	10.4x	8.7x	7.9x	5.1x	3.9x	4.0x	3.8x	42%	43%	44%	44%	340	200	200	200
Access Midstream	ACMP	\$6.257	\$8.692	\$18	439	13.3x	8.1x	7.3x	6.7x	16.1x	9.8x	9.6x	9.2x	4.4x	2.3x	3.8x	3.6x	47%	51%	52%	54%	1.650	1.050	350	350
Copano Energy	CPNO	\$3.511	\$4.633	\$20	480	15.9x	12.1x	10.9x	10.1x	15.9x	12.1x	10.9x	10.1x	4.1x	2.9x	3.7x	3.8x	59%	62%	64%	66%	355	300	300	300
Crestwood Midstream	CMLP	\$1,340	\$1,898	\$4	152	10.6x	8.3x	6.4x	5.1x	-	-	-	-	5.7x	4.6x	3.5x	1.4x	NA	NA	NA	NA	NA	NA	NA	NA
EQT Midstream Partners LP	EQM	\$1,297	\$1,500	\$4	104	15.8x	15.8x	15.8x	15.8x	-	-	-	-	2.1x	2.1x	2.1x	-	NA	NA	NA	NA	NA	NA	NA	NA
Crosstex Energy LP	XTEX	\$1,263	\$2,291	\$9	456	11.0x	7.0x	6.0x	5.3x	12.5x	8.0x	7.2x	6.7x	5.0x	3.1x	3.6x	3.4x	51%	55%	57%	60%	465	200	200	200
DCP Midstream	DPM	\$2,850	\$4,469	\$11	232	13.0x	7.9x	7.0x	6.5x	17.8x	10.9x	9.9x	9.4x	5.0x	2.9x	4.5x	4.6x	55%	55%	55%	55%	150	200	500	500
Markwest Energy	MWE	\$8,737	\$10,912	\$43	701	17.2x	11.0x	9.3x	8.6x	17.2x	11.0x	9.3x	8.6x	4.6x	2.2x	4.0x	4.0x	49%	52%	54%	56%	1,650	1,500	1,250	750
Targa Resources	NGLS	\$4,402	\$6,736	\$21	456	12.6x	8.9x	7.9x	7.4x	17.6x	12.5x	11.4x	10.8x	4.8x	3.1x	4.1x	4.1x	59%	62%	65%	67%	1,000	500	500	500
Regency Energy	RGP	\$4,454	\$6,494	\$13	497	24.3x	12.4x	11.6x	10.9x	-	13.1x	12.4x	11.8x	4.9x	3.9x	4.4x	4.3x	65%	70%	77%	84%	400	200	200	200
Summit Midstream Partners	SMLP	\$1,367	\$1,710	\$3	107	13.3x	13.2x	11.7x	11.4x	13.6x	13.6x	12.3x	12.1x	1.0x	0.1x	(0.6x)	(0.8x)	11%	1%	-9%	-13%	21	11	46	95
Southcross Energy Partners, L.P.	SXE	\$501	\$1,010	\$2	87	23.0x	15.9x	12.2x	10.7x	-	-	-	-	-	-	-	-	NA	NA	NA	NA	NA	NA	NA	NA
Western Gas	WES	\$5,387	\$6,296	\$11	200	18.5x	10.3x	8.4x	7.2x	25.5x	14.2x	12.2x	10.9x	3.9x	5.2x	3.5x	3.7x	39%	44%	44%	48%	565	358	368	378
General partners						1				1				1								1			
Atlas Pipeline Holdings	ATLS	\$2,333	\$2,367	\$12	263	1									0.2x	0.2x	0.1x					-	-	-	-
Energy Transfer Equity	EIE	\$16,749	\$23,960	\$44	745	1								2.0x	1.8x	1.7x	1.6x					-	-	-	-
Kinder Morgan Inc	KMI	\$27,452	\$43,629	\$220	5,668	1				1				2.3x	2.1x	1.9x	1.9x						-	-	-
NuStar GP Holdings	NSH	\$1,431	\$1,437	\$4	107									0.1x	0.1x	0.1x	0.1x					-	-	-	-
Oneok, Inc.	OKE	\$10,337	\$17,096	\$59	1,194	1								4.1X	3.5X	3.0x	2.8X					-	-	-	-
Masters Cas Equity Destance	IKGP	\$2,001 \$7.005	\$2,001 \$7.001	519	270									(0.00)	(0,0))	(0.00)	(0.0)					-	-	-	-
Williams Companies Inc.	WGP	\$7,200	\$7,201	\$4 \$250	6 972	1				1				(0.0x)	(0.0x)	(0.0x)	(0.0x)					-	-	-	-
Croastov Eporgy Inc.	VIVID	\$24,243 ¢966	\$34,069 \$962	\$259	0,072	1				1				(0.1x)	2.0X	2.5x	2.3x					-	-	-	-
Merine chinging		4000	\$00Z	- 4	234									(0.17)	(0.1X)	(0.1X)	(0.17)					-	-	-	-
Teekay I NG Partners	TGP	\$2.840	\$4 778	\$0	218	15 3v	18 8v	18 /v	16.6v	17.5v	21.4×	21.2v	10.8v	4.1x	114	1 2x	3.97	47%	10%	52%	51%		_	-	_
Golar I NG Partners	GMLP	\$1,679	\$2,610	\$5	151	12.8x	6.7x	4.7x	4.3x	14.0x	7 4x	5.7x	5.3x	4.5x	4.1x	3.7x	3.5x	67%	57%	54%	53%	· ·	NA	NA	NA
Other	OWILI	ψ1,075	φ2,010	Ψ5	101	12.04	0.7 X	4.7 A	4.54	14.07	7.44	5.7X	0.04	4.54	4.57	5.7 X	0.0X	0770	51 /0	5470	3370	_		19/3	19/3
Atlas Resource Partners	ARP	\$959	\$1 288	\$3	111	7.3x	4 4 x	3.2x	2 9x	9.0x	5 4 x	4 1 x	3 9x	24x	1 1 x	2 2x	2 4 x	37%	43%	44%	48%	434	360	412	416
HI-Crush Partners I P	HCLP	\$533	\$586	\$4	199	7.4x	7.0x	6.5x	6.3x	5.04	6.1x	4.1X	4.5x	0.6x	2.0x	2.2x	2.3x	30%	57%	66%	63%	77	127	139	89
Gas Storage		4000	0000	Ŷ.		1.10	1.04	0.07	0.04		0.17	1.07	1.07	0.04	2.04	2.24	2.04	0070	01.70	0070	0070			100	00
Ineray, L.P.	NRGY	\$2,880	\$3.623	\$13	576	10.7x	10.1×	8.5x	7.2x	10.7×	10.1×	8.5x	7.2x	0.4x	4.3x	0.8x	0.9x	6%	-1%	16%	21%	125	250	250	150
Inergy Midstream LP	NRGM	\$1,772	\$1.852	\$1	60	14.3x	5.6x	4.5x	4.0x	17.1×	6.7x	5.8x	5.3x	4.2x	4.3x	3.4x	3.1x	48%	50%	53%	55%	100	250	250	150
Niska Gas Storage	NKA	\$1.031	\$1.822	\$2	152	7.3x	13.2x	11.7x	10.4x	7.8x	14.1x	13.4x	12.5x	4.7x	6.1x	4.7x	4.7x	59%	58%	57%	56%	53	100	100	100
PAA Natural Gas Storage	PNG	\$1,576	\$2,156	\$2	106	19.2x	17.3x	15.7x	14.5x	19.7x	17.8x	16.2x	15.1x	5.3x	4.7x	4.6x	4.3x	34%	35%	36%	37%	50	50	25	25
5.										·															
Total:		\$380,895	\$535,557	\$1,389	32,137																	\$30,027	\$23,299	\$19,876	\$17,148
Average:		\$7,187	\$10,299	\$27	618	14.6x	11.4x	10.1x	9.3x	16.9x	12.9x	11.7x	11.0x	3.5x	2.9x	3.6x	3.5x	48%	50%	52%	53%				
Median:		\$3,511	\$4,594	\$12	269	13.8x	10.4x	9.3x	8.6x	17.1x	12.8x	12.2x	11.4x	4.1x	3.1x	3.8x	3.8x	51%	55%	55%	56%				

Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

MORGAN STANLEY RESEARCH

April 17 , 2013 Midstream Energy MLPs Primer

Exhibit 108

MLP Comparables Table: Distributions, Coverage, Cash Flow

· · · ·						Distribution Coverage P					Distribut	table Cas	h Flow					1	otal Dist	ributable	
		D	Distribution per unit			on	All Units	Outstand	ling	(afte	er GP sha	are taken	out)	GP	Share of	Distribu	tion		Cash Flo	ow (\$m)	
Company	Symbol	13E	14E	15E	16E	13E	14E	15E	16E	13E	14E	15E	16E	13E	14E	15E	16E	13E	14E	15E	16E
Midstream MLPs:																					
Large-cap diversified														1							
Enbridge Energy	EEP	2.22	2.30	2.38	2.44	0.74X	1.02X	1.04X	1.04X	15.4X	12.8X	12.2X	12.0X	18%	20%	22%	23%	646	1,141	1,401	1,611
Energy Transier	EIP	3.70	3.97	4.11	4.19	1.02X	1.09X	1.04X	1.00X	12.9X	11.7X	11.5X	11.5X	33%	35%	30%	39%	1,740	2,194	2,342	2,494
Kinder Morgan Epergy	KMD	5.20	5.03	6.01	6.31	1.00x	1.01x	1.02v	1.22X	16.8v	14.7X	14.18	14.1X	16%	46%	46%	46%	3,410	4 520	5,949	4,070
ONEOK Partners	OKS	2.29	3.01	3.47	3.66	0.082	1.01x	1.02X	1.05x	10.00	17.3	14.9X	14.08	30%	32%	3/9/	35%	3,979	4,520	1 351	1 /70
Plains All American		2.03	2.58	2.82	3.06	1 24y	1.00x	1 14v	1 1 1 1 v	21 1v	10.5x	18.5x	17.3v	33%	35%	37%	38%	1 4 9 9	1,111	1,331	1 979
Williams Partners	WP7	3.46	3 70	3.94	4 18	0.89x	0.98x	0.98x	0.97x	16.1x	14 4x	13.5x	12.8x	27%	32%	34%	35%	1,400	2 292	2 574	2 808
Natural gas pipeline		0.10	0.10	0.01		0.000	0.000	0.000	0.017	10.17	1 1.17	10.07	12.0%	2.70	0270	0170	0070	1,1 02	2,202	2,011	2,000
Boardwalk Partners	BWP	2.13	2.18	2.26	2.34	0.95x	1.02x	1.01x	1.01x	14.5x	13.7x	13.3x	12.8x	9%	10%	13%	15%	512	603	642	699
El Paso Pipeline Partners	EPB	2.54	2.70	2.86	3.02	1.02x	1.04x	1.02x	1.02x	16.6x	15.4x	14.8x	13.9x	27%	29%	31%	32%	778	890	961	1,047
Spectra Energy	SEP	2.04	2.23	2.40	2.51	1.04x	1.08x	1.07x	1.03x	18.0x	16.2x	15.0x	14.7x	16%	21%	24%	26%	267	372	470	490
TC Pipelines	TCP	3.14	3.21	3.29	3.37	1.03x	1.06x	1.09x	1.11x	15.3x	14.4x	13.9x	13.3x	2%	2%	2%	3%	176	186	196	205
Refined products / Oil																					
Buckeye	BPL	4.23	4.43	4.63	4.83	1.05x	1.03x	1.03x	1.02x	13.7x	13.4x	12.8x	12.3x	0%	0%	0%	0%	467	525	557	589
Genesis Energy, L.P.	GEL	2.07 o	I. This rrol.	This m	2.68	-	-	-	-	-	-	-	-	- 1	-	-	-	-	-	-	-
Holly Energy	HEP	1.96 o	I. This rrol.	This m	2.32	-	-	-	-	- 1	-	-	-	- 1	-	-	-	-	-	-	-
Magellan Midstream	MMP	2.15	2.44	2.71	2.95	1.18x	1.18x	1.13x	1.09x	20.4x	18.0x	17.1x	16.1x	0%	0%	0%	0%	579	657	694	734
MPLX L.P.	MPLX	1.18	1.40	1.64	1.82	1.19x	1.13x	1.13x	1.13x	26.4x	24.0x	21.1x	19.0x	2%	2%	5%	11%	106	123	154	188
NuStar	NS	4.38	4.53	4.77	4.96	0.91x	1.06x	1.04x	1.04x	13.4x	11.5x	11.1x	10.7x	13%	13%	14%	15%	354	436	472	507
Oiltanking Partners	OLT	1.68	2.04	2.20	2.23	1.20x	1.08x	1.18x	1.22x	25.9x	23.5x	20.8x	20.2x	5%	5%	6%	12%	83	98	121	133
Rose Rock Midstream	RRMS	1.76	2.00	2.24	2.53	1.29x	1.18x	1.10x	1.08x	17.2x	16.9x	16.2x	14.5x	3%	6%	10%	17%	49	60	95	137
Sunoco Logistics	SXL	2.43	2.83	3.08	3.24	1.65x	1.51x	1.43x	1.41x	19.7x	17.9x	17.0x	16.3x	32%	35%	37%	38%	613	686	723	763
Cothering & management	ILLP	2.11 0	i. This rroi.	inis m	3.25	-	-	-	-	-	-	-	-	- 1	-	-	-	-	-	-	-
Atlas Bingling	A DI	2 5 2	2 00	2 15	2 20	1 1 2 2	1.07%	1 1 2 1	1.00%	10.74	11.6%	10.24	0.07	0%	09/	0%	09/	222	265	220	271
Allas Fipeline	AFL	2.00	2.00	3.15	2.04	1.137	1.07 X	1.12X	1.09X	12.7 X	14.0%	12.04	9.00	0%	170/	0.70	070	572	203	330 9E4	040
Copano Eperav	CPNO	2.00	2.52	2.03	2.34	1.082	1 1 1 1	1 132	1 1 1 1	15.0	14.34	13.0	12.54	0%	0%	24 /0	21 /0	232	201	344	366
Crestwood Midstream	CMIP	2.33	I This rol	Z./Z This m	2.04	1.00		1.13		10.5	-	13.44	-	0 /8	0 /8	0 /8	0 /8	2.52	231	-	-
EQT Midstream Partners I P	FOM	1.53	1.53	1.53	1.53	_		-			-	-	-			-	-	_	-	-	-
Crosstex Energy LP	XTEX	1.41	1.57	1.70	1.81	1.01x	1.19x	1.23x	1.19x	13.6x	11.2x	10.2x	9.7x	8%	12%	17%	20%	147	231	286	324
DCP Midstream	DPM	2.87	3.08	3.27	3.43	1.06x	1.19x	1.15x	1.12x	16.0x	14.0x	13.4x	13.0x	25%	27%	29%	30%	286	414	466	495
Markwest Energy	MWE	3.43	4.02	4.72	5.26	1.01x	1.21x	1.18x	1.10x	17.7x	12.5x	11.0x	10.6x	0%	0%	0%	0%	505	753	897	960
Targa Resources	NGLS	2.87	3.11	3.30	3.46	1.03x	1.10x	1.11x	1.08x	16.0x	14.3x	13.4x	13.0x	26%	29%	30%	32%	412	533	604	644
Regency Energy	RGP	1.86	1.93	2.01	2.09	0.96x	1.03x	1.04x	1.05x	14.5x	13.2x	12.6x	12.1x	5%	5%	7%	8%	325	381	413	446
Summit Midstream Partners	SMLP	1.74	1.90	2.17	2.27	1.09x	1.19x	1.17x	1.13x	14.8x	12.7x	11.5x	11.3x	2%	2%	5%	6%	95	114	130	133
Southcross Energy Partners,	SXE	1.60 o	I. This rrol.	This m	1.92	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Gas	WES	2.28	2.65	3.05	3.45	1.12x	1.19x	1.16x	1.10x	23.7x	19.7x	17.4x	15.8x	22%	27%	31%	34%	343	480	599	704
General partners																					
Atlas Pipeline Holdings	ATLS	1.90	2.70	3.48	4.30	1.00x	1.04x	1.09x	1.07x	23.9x	16.2x	12.0x	9.9x	-	-	-	-	97	144	194	235
Energy Transfer Equity	ETE	2.88	3.42	3.90	4.48	1.03x	1.04x	1.04x	1.04x	20.0x	16.6x	14.7x	12.7x	-	-	-	-	839	1,006	1,141	1,316
Kinder Morgan Inc	KMI	1.58	1.74	1.92	2.12	1.03x	1.02x	1.00x	1.03x	23.8x	21.9x	20.2x	17.8x	-	-	-	-	1,693	1,868	2,027	2,275
NuStar GP Holdings	NSH	2.18	2.31	2.53	2.75	0.99x	1.00x	1.01x	1.01x	15.6x	14.6x	13.2x	12.2x	-	-	-	-	92	98	109	118
Oneok, Inc.	OKE	1.53	1.80	2.11	2.40	-	-		-	-	-	-	-	- 1	-	-	-	-	-	-	-
Targa Resources Corp.	TRGP	2.13	2.71	3.25	3.73	1.15x	1.15x	1.11x	1.09x	27.8x	21.9x	18.8x	16.7x	- 1	-	-	-	103	130	151	1/1
Western Gas Equity Partners	WGP	0.81	1.08	1.40	1.77	0.99x	1.01X	1.01X	1.00X	41.4X	30.6X	23.5X	18.8X	-	-	-	-	176	238	310	386
Croaster Eporgy Inc.	VIVID	1.50	0.75	2.23	2.53	1 0 2 2	1 0 2 4	1 00%	1 0 4 1	21.1	-	- 10.6v	-	-	-	-	-	-	-	-	-
Marine shipping		0.56	0.75	0.93	1.15	1.02X	1.02X	1.00X	1.04X	31.12	23.98	19.07	13.4X	-		-	-	20	30	44	50
Tookay I NG Partners	тор	2 70	2 75	2.80	2 87	1.04×	1.022	1.05v	1.05v	1/ 8	14.6v	11 2v	13.8v	110/	12%	1/19/	16%	220	224	236	260
Golar I NG Partners	GMIP	1.89	2.75	2.00	2.07	0.91	1.02A	1.00X	1.00X	18.3v	14.0x	11.2A	11 1v	5%	9%	17%	10%	118	232	366	414
Other	OWIEI	1.00	2.04	2.02	2.7 1	0.01X	1.104	1.104	1.10X	10.0	14.7 A	11.04	11.17	0,0	570	17.70	1370	110	202	000	414
Atlas Resource Partners	ARP	246	2.89	3 20	3 40	1.36x	1 21x	1.31x	1 23x	7 9x	7 4 x	6 2 x	6 2x	10%	19%	24%	26%	184	234	325	352
HI-Crush Partners L.P.	HCLP	2.08	1.90	2.56	2.77	1.22x	1.18x	1.26x	1.25x	7.7x	8.9x	6.4x	5.9x	2%	3%	5%	7%	74	87	106	116
Gas Storage											2.07		2.00	- ~	270	- /0	. /0		0.		
Inergy, L.P.	NRGY	1.16	1.21	1.58	1.91	1.02x	1.29x	1.03x	1.02x	18.6x	14.1x	13.5x	11.2x	0%	0%	0%	0%	159	190	182	218
Inergy Midstream LP	NRGM	1.62	1.83	2.07	2.26	1.09x	1.09x	1.05x	1.03x	14.0x	12.5x	11.2x	10.4x	8%	16%	22%	26%	174	255	332	384
Niska Gas Storage	NKA	1.40	1.48	1.60	1.72	0.80x	1.23x	1.20x	1.19x	13.7x	9.3x	8.7x	8.1x	0%	7%	12%	17%	67	70	87	107
PAA Natural Gas Storage	PNG	1.35	1.52	1.65	1.73	1.03x	1.06x	1.05x	1.03x	15.9x	13.9x	12.8x	12.5x	2%	2%	3%	4%	109	120	133	144
Average:						1.09x	1.14x	1.12x	1.10x	18.0x	15.6x	14.1x	13.1x	12%	14%	16%	18%				
Median:						1.04x	1.11x	1.11x	1.09x	16.0x	14.6x	13.5x	12.9x	8%	11%	14%	17%				

Source: Company data; Thomson Reuters; Morgan Stanley Research estimates, except for non-covered companies (GEL, HEP, TLLP, CMLP, EQM, SXE), which are consensus estimates DCF refers to Distributable Cash Flow

April 17, 2013 Midstream Energy MLPs Primer

Exhibit 109

Diversified Natural Gas Comparables Table: Valuation, Leverage

						Total	Equity	Total	52-W	Avg.																
		MS	Recent	Target	Current	Return	Mkt Cap	EV	Dai	ly Vol		EV / EB	ITDA			Price	/ CF			Price / E	arnings		Net D	ebt / Tota	I Book C	ap.
Company	Symbol	Rating	Price	Price	yield	Pot'l	(\$m)	(\$m)	(\$m)	(000s)	13E	14E	15E	16E	13E	14E	15E	16E	13E	14E	15E	16E	13E	14E	15E	16E
Diversified Gas																										
CenterPoint Energy Inc	CNP	E/w	\$24.02	27.00	3.5%	15.9%	\$10,331	\$19,421	\$80	3,342	8.2x	7.7x	7.4x	7.0x					18.9x	17.7x	16.9x	15.8x	65%	65%	64%	62%
Crosstex Energy Inc	XTXI	E/w	\$18.27	20.00	2.6%	12.1%	\$866	\$866	\$4	234					31.7x	24.0x	19.8x	15.6x	NM	58.7x	29.6x	22.2x	NM	NM	NM	NM
Energen Corp	EGN	NA	\$49.17	-	1.1%	-	\$3,551	\$5,338	\$29	580	5.4x	4.7x	4.0x	NA					14.5x	12.3x	10.7x	NA				
EQT Corp	EQT	NA	\$68.91	-	1.3%	-	\$10,374	\$12,699	\$101	1,469	9.8x	7.7x	6.6x	NA					34.8x	24.1x	18.6x	NA				
Kinder Morgan Inc	KMI	E/w	\$38.78	42.00	3.6%	11.9%	\$40,292	\$49,041	\$220	5,668	7.0x	6.5x	5.9x	5.6x	24.0x	21.6x	19.9x	17.7x	32.0x	27.9x	25.4x	23.3x	55%	54%	57%	57%
MDU Resources Group	MDU	E/w	\$24.90	26.00	2.7%	7.1%	\$4,701	\$6,430	\$17	701	7.6x	6.9x	6.5x	6.0x					19.3x	17.3x	16.5x	14.9x	35%	37%	39%	37%
National Fuel Gas Co	NFG	E/w	\$60.26	62.00	2.4%	5.2%	\$5,049	\$6,260	\$27	454	7.7x	7.0x	6.5x	6.1x					21.0x	20.4x	20.1x	19.6x				
NiSource Inc	NI	E/w	\$30.63	30.00	3.1%	1.1%	\$9,535	\$17,346	\$71	2,331	10.1x	9.4x	8.9x	8.4x					19.9x	18.7x	17.6x	16.8x	63%	64%	65%	66%
ONEOK Inc	OKE	O/w	\$49.40	55.00	2.7%	14.0%	\$10,337	\$15,565	\$59	1,194	9.5x	8.1x	7.0x	6.5x	23.6x	18.0x	15.4x	13.8x	27.1x	22.9x	19.0x	16.7x	60%	55%	52%	50%
Spectra Energy Corp	SE	E/w	\$30.53	32.00	3.7%	8.5%	\$20,089	\$31,785	\$120	3,940	11.1x	9.9x	9.3x	8.7x					20.0x	18.8x	18.1x	17.3x	58%	55%	54%	53%
SemGroup Corp	SEMG	O/w	\$52.92	62.00	1.4%	18.5%	\$2,239	\$2,289	\$21	401	13.3x	10.5x	8.6x	8.1x					24.7x	25.1x	20.9x	19.9x	29%	29%	20%	19%
Questar Corp	STR	E/w	\$24.99	26.00	2.6%	6.6%	\$4,396	\$5,823	\$29	1,174	10.4x	9.6x	9.0x	8.5x					21.2x	19.1x	17.5x	16.4x	57%	55%	52%	49%
Targa Resources Corp	TRGP	E/w	\$68.05	70.00	2.3%	5.2%	\$2,824	\$2,824	\$19	276					27.5x	21.7x	18.6x	16.6x	55.2x	39.6x	32.3x	30.3x	47%	47%	47%	48%
Williams Cos	WMB	O/w	\$37.73	42.00	3.3%	14.6%	\$24,243	\$37,041	\$259	6,872	13.7x	10.6x	9.4x	8.7x	24.6x	20.1x	17.4x	14.4x	37.8x	27.6x	23.6x	21.8x	55%	54%	53%	52%

Total:			\$155,287	\$222,907	\$1,186	33,432																
Average:	2.7%	9.3%	\$11,276	\$16,188	\$80	2,172	9.1x	8.0x	7.3x	7.3x	26.3x	21.1x	18.2x	15.6x	26.8x	25.0x	20.4x	19.5x	55%	54%	54%	53%
Median:	2.7%	8.5%	\$9,535	\$12,699	\$59	1,194	9.5x	7.7x	7.0x	7.0x	24.6x	21.6x	18.6x	15.6x	21.1x	20.4x	18.6x	17.3x	57%	55%	53%	52%
Courses Company Data, Margan Stanlay Basaarah	NA - not ovoilob		not moonir	oful																		

Source: Company Data, Morgan Stanley Res eaningtui

For valuation methodology and risks associated with any price targets in this report, please email morganstanley research@morganstanley.com with a request for valuation methodology and risks on a particular stock Exhibit 111

Exhibit 110

Diversified Natural Gas Comparables Table: Returns, Capex

		Betav.									
	.SPX-UT	S&P		ROIO	C		Capex (\$m)				
Company	Symbol	60m o	LT Rating	13E	14E	15E	16E	13E	14E	15E	16E
Diversified Gas:											
CenterPoint Energy Inc	CNP	0.76	BBB+	6.6%	6.7%	6.8%	7.2%	\$1,718	\$1,668	\$1,378	\$1,218
Crosstex Energy Inc	XTXI	1.94	NA	1.5%	3.8%	5.0%	5.7%	\$478	\$214	\$215	\$215
Energen Corp	EGN	1.29	BBB	12.4%				\$1,193			
EQT Corp	EQT	1.27	BBB	10.5%				\$1,460			
Kinder Morgan Inc	KMI	0.15	BB	8.0%	8.9%	10.5%	11.3%	\$3,313	\$2,081	\$1,849	\$1,809
MDU Resources Group Inc	MDU	1.04	BBB+	6.6%	6.9%	6.8%	7.2%	\$807	\$800	\$800	\$800
National Fuel Gas	NFG	1.03	BBB	9.1%	9.0%	8.6%	8.6%	\$717	\$768	\$757	\$747
NiSource Inc	NI	0.77	BBB-	5.5%	5.8%	6.1%	6.4%	\$1,800	\$1,700	\$1,200	\$1,200
ONEOK Inc	OKE	1.04	BBB	8.1%	8.8%	9.7%	10.4%	\$2,942	\$1,907	\$1,912	\$1,417
Spectra Energy Corp	SE	1.03	BBB+	7.1%	8.5%	9.2%	9.7%	\$1,410	\$1,562	\$1,585	\$1,609
SemGroup Corp	SEMG	0.19	B+	5.9%	6.4%	6.3%	6.0%	\$734	\$571	\$840	\$300
Questar Corp	STR	1.27	Α	11.8%	14.2%	14.6%	14.9%	\$450	\$300	\$296	\$292
Targa Resources Corp	TRGP	0.21	NA	6.3%	8.3%	9.3%	9.8%	\$1,075	\$579	\$583	\$587
Williams Cos	WMB	1.45	BBB	6.6%	8.2%	8.7%	8.9%	\$4,375	\$2,868	\$2,286	\$2,305
Total								\$23,477	\$15,017	\$13,702	\$12,500
Average		1.01		7.7%	8.1%	8.7%	9.1%	\$1,637	\$1,314	\$1,211	\$1,107
Median		1.04		7.1%	8.3%	8.7%	8.9%	\$1,193	\$1,181	\$1,020	\$1,000

Source: Company Data, Morgan Stanley Research

SOTP GP Value Assumptions

General

Partner

ATLS

ATLS

ETE

ETE

KMI

KM

NRGY

NSH

OKE

SEMG

SEMG

SE

SE

TRGP

WGP

WMB

WMB

XTXI

Limited

Partner

APL

ARP

ETP

RGP

KMP

EPB

NS

OKS

RRMS

NGL

DPM

SEP

NGLS

WES

ACMP

WPZ

XTEX

NRGM

Discount

Rate

15%

18%

13%

14%

12%

12%

13%

-

14%

14%

15%

14%

13%

16%

11%

13%

14%

20%

Terminal

Multiple

20.0x

25.0x

22.5x

25.0x

15.0x

17.5x

18.5x

-

17.5x

25.0x

20.0x

25.0x

25.0x

20.0x

25.0x

20.0x

17.5x

15.0x

Source: Company Data, Morgan Stanley Research

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(as of March 31, 2013)

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	Coverage U	niverse	Investment	Banking Clie	ents (IBC)
-		% of		% of 9	% of Rating
Stock Rating Category	Count	Total	Count	Total IBC	Category
Overweight/Buy	1031	36%	402	39%	39%
Equal-weight/Hold	1250	44%	480	47%	38%
Not-Rated/Hold	105	4%	27	3%	26%
Underweight/Sell	467	16%	113	11%	24%
Total	2,853		1022		

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of) Price* (04/15/2013)				
Stephen J. Maresca, CFA					
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$23.51			
MDU Resources Group, Inc.	E (01/06/2011)	\$23.87			
(MDU.N)					
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$57.29			
NiSource, Inc. (NI.N)	E (01/06/2011)	\$30.02			
Oneok Inc. (OKE.N)	O (11/15/2011)	\$48.53			
Questar Corp. (STR.N)	E (02/11/2013)	\$24.1			
SemGroup Corp (SEMG.N)	O (04/10/2013)	\$50.37			
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$29.96			
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$36.42			

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Industry Coverage:Midstream Energy MLPs

Company (Ticker)	Rating (as of) Price* (04/15/2013)				
Stephen J. Maresca, CFA					
Access Midstream Partners LP (ACMP.N)	O (09/18/2012)	\$40.14			
Atlas Energy LP (ATLS.N)	O (03/07/2011)	\$44.21			
Atlas Pipeline Partners, L.P. (APL.N)	E (09/10/2012)	\$34.8			
Atlas Resource Partners LP (ARP.N)	E (04/10/2012)	\$24.14			
Boardwalk Pipeline Partners LP (BWP.N)	U (12/06/2010)	\$29.5			
Buckeye Partners LP (BPL.N)	U (11/15/2011)	\$59.96			
Copano Energy LLC (CPNO.O)	E (01/30/2013)	\$40.23			
Crosstex Energy, Inc. (XTXI.O)	E (04/10/2013)	\$17.6			
Crosstex Energy, L.P. (XTEX.O)	E (01/31/2011)	\$19.05			
DCP Midstream Partners LP (DPM.N)	E (05/12/2011)	\$46.6			
El Paso Pipeline Partners LP (EPB.N)	E (03/28/2012)	\$42.08			
Enbridge Energy Partners LP (EEP.N)	U (09/10/2012)	\$29.26			
Energy Transfer Equity, LP (ETE.N)	O (03/25/2009)	\$58.13			
Energy Transfer Partners LP (ETP.N)	E (11/09/2012)	\$46.83			
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Enterprise Products Partners LP (EPD.N)	E (09/20/2011)	\$59.38
Hi-Crush Partners LP (HCLP.N)	E (09/10/2012)	\$19.07
Inergy LP (NRGY.N)	O (01/08/2013)	\$21.39
Inergy Midstream LP (NRGM.N)	E (05/29/2012)	\$23.59
Kinder Morgan Energy Partners LP (KMR.N)	E- (03/28/2012)	\$86.76
Kinder Morgan Energy Partners LP (KMP.N)	E (03/28/2012)	\$88.76
Kinder Morgan Inc. (KMI.N)	E (01/31/2013)	\$37.95
MPLX LP (MPLX.N)	O (11/20/2012)	\$35.38
Magellan Midstream Partners LP (MMP.N)	E (05/12/2011)	\$51.3
MarkWest Energy Partners L P (MWE.N)	O (09/07/2011)	\$60.22
Niska Gas Storage Partners LLC (NKA.N)	E (06/21/2010)	\$14.86
NuStar Energy LP (NS.N)	U (05/12/2011)	\$53.92
NuStar GP Holdings, LLC (NSH.N)	U (11/15/2011)	\$33.36
ONEOK PARTNERS LP (OKS.N)	E (11/05/2008)	\$53.9
Oiltanking Partners, L.P. (OILT.N)	E (08/23/2011)	\$48
PAA Natural Gas Storage, L.P. (PNG.N)	E (06/21/2010)	\$22.33
Plains All American Pipeline LP (PAA.N)	O (01/06/2012)	\$55.24
Regency Energy Partners, L.P. (RGP.N)	E (01/12/2011)	\$25.72
Rose Rock Midstream LP (RRMS.N)	E (04/10/2013)	\$36.75
Spectra Energy Partners LP (SEP.N)	U (05/12/2011)	\$36.97
Summit Midstream Partners LP (SMLP.N)	E (10/23/2012)	\$27.37
Sunoco Logistics Partners LP (SXL.N)	E (09/23/2011)	\$61.03
TC Pipelines LP (TCP.N)	U (01/06/2012)	\$48.78
Targa Resources Corp. (TRGP.N)	E (04/10/2013)	\$65.61
Targa Resources Partners, L.P. (NGLS.N)	E (09/10/2012)	\$46.32
Western Gas Equity Partners, L.P. (WGP.N)	O (01/03/2013)	\$32.72
Western Gas Partners LP (WES.N)	E (01/03/2013)	\$56.66
Williams Partners LP (WPZ.N)	E (01/08/2013)	\$51.65

Stock Ratings are subject to change. Please see latest research for each company. * Historical prices are not split adjusted.