High Yield Income from Master Limited Partnerships

A Special Research Report from

The Dividend Hunter

Investors Alley
**Introduction to Master Limited Partnerships**

As someone interested in income stocks, possibly including some attractive growth potential, you may have heard of Master Limited Partnerships – MLPs. These companies are not corporations and you do not buy shares. However, MLP "units" trade on the stock exchange and investing in an MLP feels a lot like investing in a stock. The partnership instead of corporation business structure offers significant advantages for income investors. However, there are some "gotcha" items you should understand about this class of investment. With the right amount of knowledge, MLPs may become the stars of your investment portfolio.

Although ownership units of a master limited partnership trade on the stock exchanges, just like shares of AT&T, Apple and Google, MLPs are a very different type of investment product. I have found two common responses from investors when the topic of MLPs comes up. One type has bought into one or more limited partnership companies with the belief that the investments work just like shares of a corporation, which they do not. The second type of investor learns a little about MLPs and the complexity keeps him or her from dipping a toe in the water and putting some money to work in this very attractive type of investment. Before getting deeper into this guide with information that will be of benefit for both types of investors, here are some of the main reasons to consider MLP and related investments:

1. **Attractive yields for the income investor.** Currently, the yield of the popular Alerian MLP index is around 7.5%. The Alerian index tracks the values of 40 of the largest MLPs. For comparison, the average yield of the S&P 500 stocks is less than 2% and REITs are yielding around 3.9%.

2. **Wide range of Yield vs. Growth choices.** That 7.5% average yield comes from over 120 MLP or related investment choices that allow you to pick where you want to be on a yield vs. distribution growth spectrum. These choices let you select from a range of growth driven total returns through double-digit yields with monthly payments.

3. **Although the yields from MLPs are the first item investors notice, it is the growth in distributions that will drive your returns and satisfaction with MLP investing.** You can find partnerships with long histories of annual distribution growth and many increase the payout to investors every quarter.

4. **The majority of MLPs operate in or support the energy sector, specifically oil and natural gas production in North America.** Over the last couple of years, this sector has suffered through the crude oil and energy sector bear market.
However, crude oil and natural gas production growth continue in the U.S. and MLPs let you go along for the ride with fewer bumps in the road.

5. MLP investments can drop a lot of tax-advantaged income into your brokerage account. Earning 7% on an MLP with no tax due on the income is more attractive than a 7% REIT where you must pay tax on the dividends at your highest bracket rate.

My goal with this book is to provide a comprehensive, but short, guide to everything you need to know about investing in MLPs. We will start with the basics and build from there, ending up with how to analyze and MLP to fit your investing style and the best places to find real, unbiased information on the different types of MLP investments.

**What Is a Master Limited Partnership?**

The legal authorization for publicly traded partnerships derives from the Tax Reform Act of 1986, with allowed MLPs to be taxed as partnerships. The Revenue Act of 1987 restricted the use of the MLP business structure to companies in natural resources and energy related businesses. The partnership structure is a "pass through" entity for tax purposes. This means that the partnership does not pay corporate income tax on its profits. Instead, profits or losses, and some tax deductions are passed through to the partners to claim on their own tax returns. The partnership tax status is more tax efficient than a corporation – and used by the vast majority of small businesses – because it avoids the double taxation of paying corporate income tax at the company level and additional taxes on the dividends paid to share owners.

When you invest in a publicly traded MLP, you buy limited partner units, as opposed to shares of a corporation. From your MLP units you will receive distributions, not dividends. In most cases, distributions you receive from an MLP investment will not count as taxable income.

Investors in an MLP are limited partners in the company. Limited means that investors have no say in how the company is managed. In most cases, limited partnership unit owners have fewer rights than do shareholders in a corporation. Instead an MLP is governed by a detailed partnership agreement. Also the management of a partnership will turn over major decisions that affect the investment results of limited partner investors to an independent resolution committee. In practice, investing in an MLP feels a lot like buying shares in a corporation that trades on a stock exchange. The difference comes at tax filing season, which gets somewhat more complicated but is nonetheless manageable by practically any investor. There will be a whole chapter on MLP investing and taxes later in this book.
While investors are limited partners in an MLP, the company is managed by the general partner. The General Partner (GP) interest in the partnership may be owned by another publicly traded corporation or MLP, a private company, or an internal part of the MLP. Typically the general partner interest is typically 2% of the partnership and LP units make up the other 98%. With many MLPs, the GP is also entitled to earn incentive distribution rights, or IDRs in MLP investing lingo. These rights entitle the general partner to additional payments from the partnership when the distributions to LP unit holders exceed certain levels. An IDR system incentivizes the general partner to grow the distributions paid on the LP units.

**Kinds of MLP Companies and What They Do**

As was covered earlier, the MLP business structure is restricted to companies operating energy related businesses. As you can imagine there a lot of steps between oil, natural gas, or coal in the ground to having gas in your car or electricity in your home. MLPs own assets that provide many of the services required along energy sector spectrum. The larger MLPs provide a wide range of services in the energy sector, while smaller MLPs tend to focus on one specific aspect of the energy industry. The 120 or so MLPs can be divided into three sub-sectors of the energy business and each group has its own characteristics and investment potential.

The upstream energy sector is the part of the energy spectrum involved with the drilling of wells to find oil and gas and then selling those energy commodities. Exploration and Production (E&P) is another term comparable to upstream. There are distinct differences between the upstream, E&P companies organized as corporations and those set up as MLPs. The corporations are most interested and operate on the "E" side. These companies measure success by how many successful wells they drill during the year. Corporate E&P companies reinvest most of their profits into drilling more new wells and rarely pay dividends. The MLPs primarily stick to the "P" side, buying and owning producing wells to generate free cash flow that can be paid out as distributions to investors.

Historically, this group of MLPs typically carried some of the highest yields in the MLP space. The companies hedged much of their future production to lock in cash flows, which was supposed to allow them to pay stable distributions. The 2014 crash in the price of crude oil showed that hedging is not a perfect solution and the entire upstream MLP sector stopped paying distributions and all of the companies were forced into some sort of reorganization. The disrupted energy market forced the upstream MLPs almost out of business. Since several of the companies are still operating, it will be interesting to see what steps they take to again become distribution paying investments.
The midstream energy space is the traditional focus of MLPs. Midstream operations deal with the handling, movement, and storage of energy commodities and products around the country. To show the different services, let us follow the path of oil and natural gas from the wellhead to the end user. In the energy plays midstream companies provide gathering and processing services. The resulting crude oil, natural gas and natural gas liquids (NGLs) are transported by midstream assets to their next destination. The primary transport mechanism is by pipeline, but midstream companies also own and operate tanker trucks, rail cars, and barges – whatever it takes to move the energy products. Midstream companies provide loading and unloading facilities and storage that allow the energy products to change transportation modes and be where they are needed when they are needed. Refined energy product are also stored and transported by midstream MLPs.

Most midstream companies provide these services on fee based contracts, often with take or pay clauses. These contracts produce very stable, predictable revenue streams. An MLP may also take on some commodity pricing exposure with certain types of midstream services. For example, a gathering and processing company may have revenues based on the value of the NGLs it processes out of the raw natural gas stream. However, the majority of midstream MLP revenues come from long-term, fee based contracts that provide visibility to the ability to pay distributions for several or more years in the future. Many midstream partnerships grow their business through regular additions of new midstream assets, providing a growing revenue stream and growing distributions to investors.

In the final group of MLPs I lump together downstream companies and any other partnerships that do not fall into the traditional midstream or upstream camps. Downstream MLPs process oil and natural gas into refined products. Included in this group are partnerships that own refineries, fertilizer plants, or petrochemical production facilities. Another group in the downstream sector is comprised of propane retailing MLPs. A difference in the downstream sector is that some of these MLPs have variable distribution policies. The refiners and fertilizer partnerships have both input costs and product prices that vary with market conditions and these MLPs pay changing distributions as their profits move up and down. This is in contrast to the majority of MLPs that have minimum distribution levels in the partnership agreement and strive to make steady payments to investors.

The illustration at the top of the next page is a clear representation of the differences between the three main types of MLPs: upstream, midstream, and downstream.
A couple of final points to close out this chapter. If an organization wants to launch a new MLP involved in a business outside of the traditional MLP pursuits, a private letter ruling (PLR) is requested from the IRS on whether or not the business qualifies under the tax rules to be an MLP. In recent years, new MLPs have entered the market providing non-traditional services such as frac (fracturing) sand sales and energy well water disposal. There also exists a small group of publicly traded partnerships PTPs that are not officially MLPs. Most of these PTPs are involved in the financial services industry. Well know examples include Blackstone Group LP, Icahn Enterprises LP, and KKR & Co. LP. These PTPs are very different beasts compared to MLPs and not covered in this guide.

**The MLP Growth Mechanism**

Compared to most publicly traded corporations, the partnership structure changes how an MLP grows its business. A growth focused corporation funds that growth by reinvesting profits back into the business. That is why most of the fast growing corporations pay little or nothing as dividends to share owners. For example, Apple (NYSE:AAPL) has been a publicly traded company since 1981, and considered a fast growing company since 2004, yet it wasn’t until 2012 that the company start paying dividends, and that was due primarily to intense pressure from activist shareholders. MLPs as pass through entities pay out the majority of the free cash flow they generate as distributions to investors. Without piles of retained earnings to reinvest in the business, an MLP uses a different path to grow its business and the distributions paid to investors.
First, most MLPs have little expectations for organic growth from the assets it owns. MLPs grow by adding assets or improving the capacities of the assets they already own. To grow through asset addition or upgrading existing assets requires money, called capital expenditures or "growth capex" in MLP jargon. Since an MLP will pay out most or even all of its free cash flow as distributions to investors, the money for growth capex must come from outside sources.

To fund growth projects an MLP will use a combination of equity issuance and debt. An equity capital raise involves selling additional LP units into the market. A partnership will announce a secondary equity offering with how many units it plans to sell. Since the unit price often drops by several percentage points or more when a secondary hits the market, the issuance of new units can be a good time to add to an MLP position in your brokerage account. Many MLPs also use an at-the-market equity (ATM) to raise capital. An ATM is a shelf registration to sell units that allows the MLP to sell units in smaller amounts into the market without any public notification.

An MLP will fund a new project – acquisition or built new – with a combination of equity and debt. Typically, the proportion of each type will be announced with acquisitions. For example, an MLP makes a $1 billion acquisition and announces the purchase will be financed with $500 million of new equity issuance and $500 million of additional debt. The MLPs that develop and build their own projects will raise equity and debt capital over time to fund the constructions costs as they are incurred.

For an MLP to continue to grow, the number of outstanding units and the total debt will grow over time, without end. The earnings produced by the acquisitions or developed projects is expected be enough to cover the debt interest, the distributions paid on the newly issued units, and to increase the distribution rate paid to all unit owners. When a capex project produces enough cash flow to cover the expenses of the capital raises and also allows the MLP to increase the distribution rate – and it really, really should – the growth capex project is described as accretive to the per unit distributable cash flow (DCF).

While we are on the topic, there is another type of capex, referred to as maintenance or sustaining capex. This is the money an MLP spends to maintain its assets or, in the case of upstream MLPs, spent on production to offset the natural decline of well output. Maintenance capex should be paid out of an MLP’s operating cash flow and not come from the outside capital sources.

**Tax Consideration When Investing in MLP Units**

Although MLP units trade on the stock exchanges, and from your brokerage account point of view seem a lot like corporate stock shares, the tax treatment of unit ownership is significantly different compared to how you handle the taxes of dividend paying stock
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shares you own. The tax issues with MLP ownership are not scary, overly difficult, or a reason to not invest in this very attractive asset class. The fact is that the MLP structure provides more tax benefits for investors than it does hassles.

**The Schedule K-1**

As an owner of MLP units, you are technically a partner. Partnerships do not pay income taxes at the company level, but instead pass through profits and losses to the partners to claim on their individual income tax returns. The Schedule K-1 is the part of a partnership tax return that shows each partner's share of gains, losses and deductions. You use the K-1s sent by the MLPs you own to complete your tax return. If the K-1 reports profits on your unit holdings, that will be regular taxable income. MLP losses are generally not useable, unless you get a chance to use them against past or future profits from the same MLP investment.

Each investor receives a personalized Schedule K-1, based on the date or dates of unit purchase. Profits and losses are not computed by the company on an overall per unit basis. This is because when you invest in an MLP, you become a partner buying a 100% not yet depreciated share of the partnership's assets. As a result of the partnership tax rules, your ownership stake in the partnership will have significant depreciation write offs in the early years of your unit ownership, reducing or eliminating the amount of reportable taxable gains.

All of the popular tax preparation software packages can handle K-1 reporting. You just plug in the numbers into the program. If you use an accountant or other professional to prepare your taxes, that person will just plug the numbers into their software program. Don’t let them hit you with too much in extra fees just because you have K-1’s. One traditional problem with K-1 entities was the tendency to send the forms out too late for a partner to file taxes by April 15, forcing the need to request the late October 15 filing date. Most MLPs now post K-1’s online in time for taxes to be filed but if you have to, using the IRS form to request a late Federal tax filing is no big deal. I have been told by investors who receive a lot of K-1’s that a practice of using the late filing date seems to reduce the chances of an audit. Consider this anecdotal evidence only.

Disclaimer: The discussion here is informational only and is not intended to be legally binding tax advice, and you should consult with a tax professional if you have questions about your personal tax situation.

**Tax Advantaged Distributions**

The quarterly or monthly cash payments you receive from an MLP look like dividends but they are not. You earn distributions from your MLP unit holdings. Distributions come out of the free cash flow the partnership generates from its business operations. For tax purposes, partnership distributions are not income, but instead are classified as return of capital (ROC). Your taxable income from a partnership investment, including MLP units, are the profits reported on the schedule K-1. The amount of reportable income
from the K-1 and the amount of distributions you receive can be very different amounts. The distributions are not reported on your tax return.

Return of capital payments from an investment reduces your cost basis in that investment. You recapture the distributions as taxable income when you sell the units. For example, you invest in an MLP paying $20 per unit. After three years, you have earned $3 per unit in distributions and sell the units for $25. At that point your cost basis is $17 per unit ($20 minus $3). On your tax return the $5 unit price increase would be long term capital gains and the $3 distribution recapture will be classified as ordinary income.

Your actual cost basis calculation is somewhat more complicated than the simple example shown above. The basis also adjusts for the profits or losses reported on the K-1 you receive. Income from the K-1 which you include in your taxable income increases the basis. In most cases, the MLP will keep track of your basis from year to year. Find your basis in section L of the K-1.

State Income Taxes

An MLP must proportionally allocate a unit owners share of the partnership income to the states where the MLP generates revenues. You may need to file a state income tax return in each of the states where you MLP does business. Most states have income thresholds, which your state derived earnings must exceed before you must file a return. The tax filing software you use or your accountant will advise you concerning which state tax returns you should file. The Master Limited Partnership Association provides a downloadable file (Microsoft Word format) with information for all states: https://www.mlpassociation.org/resources/tax-resources/state-taxation/state_tax_chart/

MLPs, K-1s and IRAs

If you own MLP units inside of a qualified retirement account, such as an IRA, the K-1 MLP earnings may be subject to Unrelated Business Taxable Income (UBTI) tax. The MLP knows the units are held in a retirement account and include the amount of UBTI in the Schedule K-1. You can earn up to $1,000 in UBTI in a tax qualified account without any tax consequences. If you exceed the $1,000 threshold, the retirement plan account will be required to file a Form 990-T Exempt Organization Business Tax Return and pay corporate income tax on the amount over $1,000.

Typically, an MLP will generate a small percentage of UBTI compared to the distributions you earn from the units. However, it is not possible to predict the amount of UBTI from a specific MLP investment. You only find out when the K-1 arrives. If you do exceed the $1,000, the custodian of your retirement account must complete and file the Form 990-T, take the tax due amount out of the account and send it to the IRS. Even if you do not earn more than $1,000 in UBTI on an annual basis, there is the potential for a UBTI recapture when you sell the MLP units.
Once more with feeling: The discussion here is informational only and is not intended to be legally binding tax advice, and you should consult with a tax professional if you have questions about your personal tax situation.

**Analyzing and Selecting MLPs for Investment**

The range of available MLPs allows you to invest in different sub-sectors of the energy sector and receive a tax advantage cash income stream from your investments. In this section I cover some features and criteria to look for as you start to evaluate individual MLPs for your portfolio. The discussion mainly covers midstream MLPs, which comprise the largest portion of the sector.

The driving objective behind investing in midstream MLPs is to earn attractive distribution income that grows over time. Distribution growth will produce an increasing unit value as well as a growing income stream. For example, a hypothetical MLP yields 5% and is able to increase distributions by 10% per year. Following the rule of 72, the distribution payments will have double after 7 years. For the MLP to stay at a 5% yield, the unit price must also have doubled. As a result, an investor would see a total return of 150% to 200% in 7 years, almost locked in. Another nice MLP feature is that many partnerships will increase the distribution every quarter.

I start my research into a group of MLPs with a listing by yields and distribution growth rates. In general units with higher yields will be growing distributions at a slower rate and conversely, if you go with lower yields you can expect faster distribution growth. Also, older, larger, MLPs with more diverse operations and proven track records will carry lower yields in relation to the distribution growth rates. Smaller and/or newer MLPs will yield more until the market gets a better view of the business stability and growth prospects. The universe of MLPs offers a wide range of yield vs growth options.

The distribution coverage ratio is another important metric to watch. A ratio of distributable cash flow (DCF) to the distribution rate over 1.0 time shows the partnership generates cash flow in excess of the cash needed to pay the declared distributions. Some MLPs keep the ratio tight at 1.0 to 1.1 times, paying out almost all cash to unit holders. Others carry a cash flow cushion, maybe something like 1.4 times. The extra cash flow above the distributions paid can be used to fund growth capex. There are times when the ratio drops below 1.0, and a temporary cash shortfall is acceptable if management shows how future growth projects will get the ratio back above 1.0.

As discussed in Chapter 4, an MLP grows by adding to its revenue producing portfolio of assets. MLPs use one or more of three different avenues to add assets. **Avenue One:** The big MLPs build their own. They conceive of new pipelines, processing, or storage assets, then go out to the energy company to gauge the interest (often with binding
commitments) and then construct the asset. This avenue produces the best return on invested capital, but the MLP must have the financial strength to invest millions of dollars over a several year period before realizing the revenue from a new asset. Avenue Two: Drop downs are the sale of assets from an MLP’s sponsor company. Many new MLPs receive just a portion of the qualifying assets owned by the sponsor and the remaining assets can be dropped to the MLP over a period of years. This avenue allows very tight management of DCF and distribution growth. Avenue Three: Acquisitions, involving the purchase of specific assets from other companies or the buyout of whole midstream focused MLPs, corporations, or private companies. This source is less predictable, but can provide a nice positive boost on top of forecast growth rates.

When you look at MLPs for investments, you can tailor your choices towards yield, growth, or a combination. If you want investment distributions to be your income for living expenses, you goals may steer you to MLPs with higher yields in the 6% to 9% range with single digit growth rates. If you are looking for a high total return and capital appreciation, a focus on high growth MLPs can provide returns comparable with growth stocks. This group of MLPs is comprised of those growing distributions by 15% to more than 30% per year.

Individual MLP analysis involves looking at the partnership’s plan to grow its business and how well it meets the guidance and forecasts provided by management. MLPs that consistently meet or exceed guidance will serve you well in the long run. Those that come up short of guidance are sell candidates if you own them.

MLP General Partners - Opportunities for Locked-in Growth

Publicly traded "Pure play" general partner companies offer an alternate way to participate in and "supercharge" the distribution growth rates of a handful of midstream MLPs. These are companies where the primary assets are the GP and incentive distribution rights (IDR) of one or more MLPs. The GP companies typically also hold a significant percentage of the MLP LP units. The revenue of a pure play general partner consists of distributions from the GP and LP units and the IDRs paid by the partnership. The general partner company will have little or no operating expenses. These companies all pay distributions to investors that mirror the growth in the revenue streams.

The typical partnership agreement provides for incentive distribution rights payments be made to the holder of the partnership’s general partner units. IDRs are set up with tiers or "splits" of higher percentages as the quarterly distribution rate paid to limited partner unit owners increases. In most cases, the highest 50% split requires that any increases in distributable cash flow be split 50/50 between the limited partners and the general partner. IDR payments are based on the cash the MLP pays out as distributions, so these payments increase with both growing distribution rates and larger numbers of

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LP units when equity capital is raised. The math works out so that the cash paid to the GP grows at 2 to 3 times the rate the distribution growth paid on the LP units.

The result of the general partner structure for MLPs is that you can invest in companies growing distributions by 20% or more per year. As long as the underlying MLP grows its distributions, the GP distributions will increase at a multiple of the MLP growth rate.

Yields on these companies range from 2% to 5%. These are growth investments with the growth fueled by the distribution and IDR payments from the MLPs. Several of the GP companies file taxes as corporations, which means investors earn Form 1099 dividends, instead of Schedule K-1 distributions.
Packaged Products for MLP Investing

The financial services industry has developed a wide selection of packaged, fund-type investment products that cover the MLP sector. In fact, there are about 70 funds covering the 130 MLPs and related companies. Investing in the MLP group with a fund allows you to avoid the extra K-1 tax reporting work. All types of MLP focused funds will send the common Form 1099 for your tax reporting. However, fund management companies face their own tax challenges.

With mutual funds, closed-end funds (CEFs) and exchange-traded funds (ETFs) any fund holding more than 25% MLPs cannot qualify as an income pass-through, registered investment company, or RIC. As a result, most of the MLP-focused funds are structured as C-corps and incur a corporate income tax liability on unit value gains and K-1 profits. The non-availability of the tax pass through of a RIC produces the following results:

- An MLP ETF will accrue corporate income taxes at a 35% to 37% rate on gains in the portfolio. A fund accounts for the accrued tax liability in the reported share net asset value, generally referred to as NAV.

- The fund will pay cash income taxes on net realized capital gains and positive K-1 reported income. The taxes paid show up in the fund expenses, which is the reason you will find very high expense ratios reported for MLP funds.

- The ETF return will lag the index return in a rising market by the 35% tax rate as the accrued taxes are applied to the NAV. If MLP values fall, a fund’s NAV should not decline as fast as the index since accrued tax values will be recaptured.

- The dividends paid by an ETF will be classified as return of capital (ROC). This is not taxable income, but the dividends earned reduce the cost basis in the fund. Mutual fund and CEF dividends can be a combination of ROC, ordinary income, and capital gains.

The MLP tax issue for funds produces one benefit for MLP ETFs. While a fund’s total return will lag the index result, the lagging share price results in a dividend yield that is higher than the yield on the index. For example, at the time of publication the Alerian MLP Infrastructure Index (AMZI) reported a yield of 7.5%. The ETF tracking the AMZI, the Alerian MLP ETF (NYSE:AMLP) had a yield of 10.5%.

Closed-end funds may offer the best total return opportunity for MLP packaged investment products. A CEF is actively managed, allowing the fund manager to focus on the strong MLPs in the sector and also invest in the publicly traded general partner companies, which are not included in the indexes. Closed-end funds also employ up to 30% leverage, which helps offset some of the corporate income tax expenses. Finally, CEF shares often trade at significant – 5% to 15% – discounts to their NAV prices. The discount further boosts the current yield.
The lowest expense MLP funds are the index tracking exchange traded funds –ETFs. The range of MLP ETFs let you dividend the sector by investment objective, such as high yield, or purely infrastructure focused. A couple of newer MLP ETFs are actively managed, giving the benefits of a CEF with the lower expenses and NAV tracking of an ETF.

Exchange Traded Notes (ETNs) do not actually own MLP units and do not pay corporate income taxes. An ETN will closely match the return of the target index. ETNs are unsecured debt obligations of the issuing financial institution. Dividends paid will be classified as fully taxable ordinary income.

**Conclusions**

The MLP business structure requires a different set of analysis tools. The majority of stuff you find in the free investment advice world either uses the wrong analysis tools or just does not understand how MLPs function and how they differs from corporate stock shares. I have seen many, many articles on some very well read and highly visited investing websites touting MLPs that were showing danger signals, giving investors a false sense of security. Often these websites end up publishing articles aimed at making investors feel good about investments they own and rarely point out that a specific stock or MLP is not a good investment. As you search for information on MLPs, look for advisors, authors, and websites that understand MLPs and treat them as a different type of equity product.

**MLP Glossary**

Below are common and some not so common, terms and phrases you’re likely to come across while doing research on master limited partnerships. This is by no means an exhaustive list but covers terms the ones most often used.

**Alerian MLP Index, AMZ.** The most widely followed index for the MLP sector.

**Capex. Capital expenditures.** Growth capex is money spent on projects that will increase the size of the MLP and cash flow. Maintenance capex is money spent to keep existing assets on proper operating condition. Upstream MLPs also report sustaining capex, which is capital spent to offset the natural decline in production from oil and gas wells.

**Distributable Cash Flow, DCF.** Free cash flow that the partnership generates after paying operating and maintenance expenses and interest on debt. DCF is the money available to pay distributions to investors in the MLP.
Distributions. MLP investors receive distributions (quarterly or monthly), not dividends. They look like dividends in your brokerage account, but have much different tax attributes.

Distribution Coverage Ratio. The ratio of cash flow (DCF) to distributions paid to LP investors.

Downstream. The subsector of the energy sector that processes energy commodities such as crude oil, natural gas and NGLs. These companies are oil refineries, fertilizer and chemical producers.

K-1, IRS Schedule K-1. The section of a partnership tax return that reports each partner's share of the company's profits or losses. MLP investors receive a K-1 that lists their proportionate share of the partnership taxable results.

General Partner interest, GP interest. The general partner of an MLP manages the company. The GP interest is typically 2% of the unit value. The GP is a separate saleable part of the MLP. It may be owned by another publicly traded company, the MLP itself, or a private firm.

Limited Partner unit, LP unit. MLP's have publicly traded units instead of shares. As an investor you are an LP unit owner.

Master Limited Partnership, MLP. A publicly traded company that is organized as a partnership for taxes. Limited partner (LP) units trade on the stock exchange like shares of a corporation.

Midstream. The energy sector that collects, processes, transports, and stores energy commodities between the wells, refineries and retail outlets.

NGLs, Natural gas liquids. Heavier that regular natural gas products processed from the natural gas stream produced at the well. NGLs include ethane, propane, butane and isobutane.

Upstream. Also sometimes called exploration and production (E&P) companies. These are the companies that drill oil and gas wells. The generate revenue from the energy commodities that are produced by the wells they own and operate.