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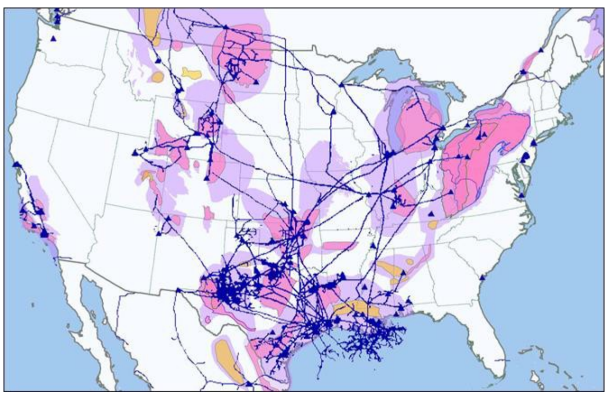
MLP Flash Report

July 2013

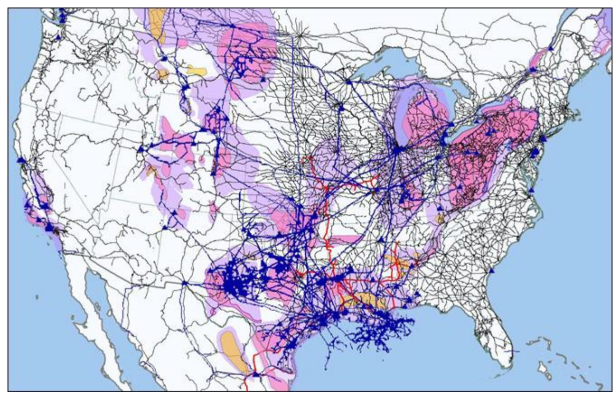
Growth in Rail Use Adds Revenue for MLPs

We believe crude transportation by rail will be a tailwind for several MLPs over the next few years. Midstream energy MLPs are in the business of transporting and storing commodities for a fee by any means available. As such, we view Crude by Rail (CBR) as a complimentary revenue stream to the core pipeline business of many energy MLPs. Although pipelines have many advantages once built (low variable costs, easily expandable/scalable, more efficient) and will get built in the long run, producers/midstream operators in the Midcontinent/Canada currently prefer the initial low capital outlay, short construction times and market optionality provided by rail. In short, the rail network allows one to more quickly sell lower priced crude to the customer with the highest willingness to pay at any given time in what is currently a rapidly changing energy environment.

Crude Pipeline Network



Rail System is More Extensive



Source: Kansas City Southern

We believe the most compelling evidence of CBR augmenting pipeline hauls comes from analyzing announced capital projects. Major refineries, including Phillips 66, Tesoro, BP and Sunoco to name a few, already are or will receive crude by rail in the near future. Sell side estimates of announced spending to build crude tank cars and origin/destination facilities currently top $1bn.

Time to Build/Time to Market Makes Rail a Compliment to Pipelines

Time to build and time to market are also important factors driving the longevity of CBR, in our opinion. Unit Trains can be built in 12-18 months vs. 5-10 years for a long haul pipeline. Rail transit times are quicker (~3 round trips/month to the East, West and Gulf Coast from the Bakken and Canada).

Crude Spreads Change Quickly, Rail Used to Exploit

Origin	Destination	Relevant Spread	Actual Spread ($/bbl)	Rail Cost ($/bbl)
W. Canada	Washington	ANS-WCS	$21.10	$8.00-$11.00
W. Canada	East Coast	Brent-WCS	$16.78	$13.00-$16.00
W. Canada	St. James	LLS-WCS	$19.15	$14.00-$17.00
Bakken	California	ANS-Bakken	$11.10	$13.00-$14.00
Bakken	East Coast	Brent-Bakken	$6.78	$13.00-$16.00
Bakken	St. James	LLS-Bakken	$9.15	$12.00

Source: Bloomberg, GEI, TSO, PSX, VLO, Credit Suisse

In the end, we think crude by rail is sustainable for some time to the East/West Coast from the Bakken and heavy Canadian crude varieties will find their way, by rail in many cases, to the Gulf Coast. We will continue to be on the lookout for MLPs that benefit from this emerging trend, including PAA, TLLP and SXL, which we currently hold in our portportfolio.