CRESFORUM

Issue Brief: Master Limited Partnerships

Increasing investment opportunity in clean energy

- Leveling the playing field for energy technologies
- Lowering the cost of capital for renewable energy projects, energy efficiency, carbon capture, and other next-generation energy sources
- Creating options for investors that do not rely on tax credits

A Master Limited Partnership (MLP) is a form of business venture commonly used in the oil and gas sector. These designations are frequently used for pipelines and other "depletable" energy projects. The MLP is beneficial to investors and project developers because it offers the benefits of a partnership, such as avoiding double taxation through corporate income and dividends because profits are passed through to the individual partners, while still offering the ability to publicly trade partnership units.

In 2017, **82 percent of MLPs were in "depletable natural resources"** with the remainder of MLPs spanning real estate and other investment instruments. Historically, MLPs have not been available to renewable energy projects, energy efficiency, carbon capture storage (CCS), small modular nuclear (SMR), and other next-generation energy sources. As a matter of public policy, this non-application to renewable energy projects should be reviewed. Revising this precedent has the potential to help make more capital accessible for new energy projects, especially as the availability of investment and production tax credits (ITCs and PTCs) decreases and sunsets over the next few years—without creating additional subsidies. MLPs could reduce the cost of capital and therefore enable projects that otherwise may not proceed to move forward.

Why MLPs

- Enterprises in the oil and gas sector that operate and maintain pipelines have a business model that is stable and predictable. This level of consistency and manageable risk makes it possible and advantageous to absorb that risk through a partnership (and typically not hiring any employees) instead of forming a traditional corporation and paying corporate taxes.

- This organizational approach has fostered strong interest in the MLP status since the business structure was first introduced in the 1980s. Since then, this designation has been used by **hundreds of entities** involved in energy production, transmission, or distribution.

- The IRS has reaffirmed this designation with select provisions that have allowed MLPs to act as a hybrid. Rather than offering shares of stock, MLPs are able to offer partnership units. Since MLPs trade these units on securities markets, such as the New York Stock Exchange, they have broad access to cheaper capital that other partnership structures would lack.

- MLPs have a net benefit to investors because they pay only an income tax (i.e., pass-through tax rate), as opposed to the full corporate rate through a corporate structure and then income or investment tax. MLPs offer stability to investors who are willing to accept some risk and are looking for regular cash flows in outlying years that can either be reinvested or taken as a dividend.

Expanding MLPs for Renewables

The case behind an all-of-the-above energy policy is based on the notion that federal policy should be technology agnostic and that there should be a level playing field for all energy generation types across the board.

While MLPs are currently exclusively permitted for "depletable" sources of energy, there is a strong case to be made for renewable sources as well. Once operating, a pipeline and a wind farm **offer similar characteristics** of

predictable cash flows and an extended operating contract. By extending MLPs to include renewable projects, a new source of funding would become available for a capital-intensive industry. Putting this vision into nominal terms, **financial projections from the American Wind Energy Association (AWEA) show** that expanding MLPs to renewables could lead to an additional "$3.2 billion to $5.6 billion capital inflow into the industry between now and 2021."

Expanding MLPs to renewables opens a new avenue of finance for investors who have already prioritized green, sustainability-based investments. Bloomberg New Energy Finance reports that in 2017, **new investment in clean energy reached $333 billion.** Given the maturation of renewable energy technologies, as well as their ability to generate electricity at increasingly cost-competitive rates, the investment community continues to gravitate to this growth market.

The MLP Parity Act

A bipartisan group of senators introduced the **MLP Parity Act** in the fall of 2017. This bill outlines a level playing field that includes renewable projects, energy efficiency, carbon capture, nuclear, and other next-generation energy sources. This bill amends the existing law based on 40 years of innovation that has greatly expanded the number and the scale of projects that qualify as an MLP.

This legislative solution offers an exciting path forward that does not require additional tax credits or subsidies for renewable energy. Rather, this bill underscores the need for equitable treatment for a broad array of energy sources—not just those that are already well established. The MLP Parity Act offers a stable future for new investment in energy projects and would offer a market-based incentive to deploy new projects for all types of customers, including industrial, commercial, and residential. This long-term, pragmatic solution offers greater certainty for these new technologies, promoting additional job creation, resiliency and more domestic energy production.

Recommendation

Congress should pass MLP legislation that increases investment opportunity in clean energy, levels the playing field for different types of energy generation technologies, and creates options for investors that do not rely on tax credits.