THE OKLAHOMA MLP QUARTERLY

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TAX UPDATE

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MLP Qualified Income PLR Moratorium

When you survey the technical tax issues that publicly traded master limited partnerships ("MLPs") face, one issue reigns supreme – qualifying income. Generally speaking, an MLP that earns certain types of income ("Qualifying Income") designated by Congress will not be required to pay an entity-level federal income tax. Although other types of income, such as interest and real property rents from unrelated parties may also be considered Qualifying Income, most Oklahoma MLPs rely on the natural resources rule, which provides that income derived from the exploration, development, mining or production, processing, refining, transportation, or marketing of any mineral or natural resource is Qualifying Income. Due to this critical importance, MLPs often request private letter rulings ("PLRs") from the IRS to ensure that their income will meet the qualifying income standards. Over the last few years, the IRS has issued rulings on a number of activities that may be perceived as having expanded the scope of Qualifying Income. On March 28, 2014, Cliff Warren, IRS Special Counsel to the Associate Chief Counsel Passthroughs & Special Industries, publically acknowledged that the IRS has placed a "pause" on issuing PLRs related to certain aspects of the Qualifying Income issue.

From Warren's acknowledgement, the IRS has temporarily ceased issuing such rulings in order to regroup and speak with the Department of Treasury regarding what types of rulings should be granted in the future. It appears that the government wants to take time to rethink where the boundaries of the rules should be.

//ABOUT THE OKLAHOMA MLP QUARTERLY

The Oklahoma MLP Quarterly highlights changes in taxation, law and capital markets that affect master limited partnerships who have headquarters located in, or significant contacts with, Oklahoma. The publication is circulated electronically following the end of each calendar quarter and is the product of a collaboration among Ernst & Young LLP, GableGotwals and Pinnacle Investment Advisors, leaders in taxation, law and investment advisory services with respect to MLPs in Oklahoma.

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It appears that straight-forward, "middle-of-the-fairway" MLPs (e.g., pipeline transportation) are unlikely to be affected by the "pause." However, a company in a business line outside of that of a traditional MLP may need to monitor this situation more closely, even if such company already has a favorable PLR.

It is unclear how long the pause will last, but representatives from the IRS have said that it may start granting "straight forward" PLRs prior to a decision being made on the less straight-forward PLR requests.

Last summer, the IRS placed a similar "pause" on REIT rulings due to concerns about the growth of non-traditional REITs. The IRS lifted the moratorium later in the year without apparently making any significant changes to the ruling process.

It is unknown when, or if, the IRS will lift the MLP qualifying income PLR "pause," or what changes it might make to the qualifying income PLR process in the future. Input from the MLP community, including a discussion of the potential effects of a PLR "pause" on the capital markets and on the growth of domestic energy production, may be useful in spurring the IRS to a quick resolution.

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// TAX UPDATE

On **MARCH 28, 2014** Cliff Warren, IRS Special Counsel to the Associate Chief Counsel Passthroughs & Special Industries, publically acknowledged that the IRS has placed a *"pause"* on issuing PLRs related to certain aspects of the Qualifying Income issue.

LEGAL **UPDATE**

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MLP in the Spotlight – Cypress Energy Partners, L.P.

On January 21, 2014, Cypress Energy Partners, L.P. ("CELP"), headquartered in Tulsa, completed its initial public offering of 4,312,500 common units, yielding gross proceeds of $86,250,000, becoming one of the newest Oklahoma MLPs.

Business: CELP provides saltwater disposal and other water and environmental services to U.S. onshore oil and natural gas producers and trucking companies through its Water and Environmental Services business segment. CELP also provides independent pipeline inspection and integrity services to producers and pipeline companies through its Pipeline Inspection and Integrity Services segment.

Water and Environmental Services—Through this segment, CELP owns and operates nine saltwater disposal ("SWD") facilities, seven of which are in the Bakken Shale region of the Williston Basin in North Dakota and two of which are in the Permian Basin in west Texas. This segment also manages four other SWD facilities in the Bakken Shale region. The Water and Environmental Services segment's customers are oil and natural gas exploration and production companies and trucking companies. Revenues in the Water and Environmental Services segment are generated primarily by treating produced water and flowback water and injecting them into the segment's SWD facilities. The results of the Water and Environmental Services segment are driven primarily by the volumes of produced water and flowback water the segment injects into its SWD facilities and the fees it charges for its services. Those fees are charged on a per barrel basis and vary based on the quantity and type of saltwater disposed, competitive dynamics and operating costs. In addition, the segment generates revenue by selling residual oil it recovers from the flowback and produced water.

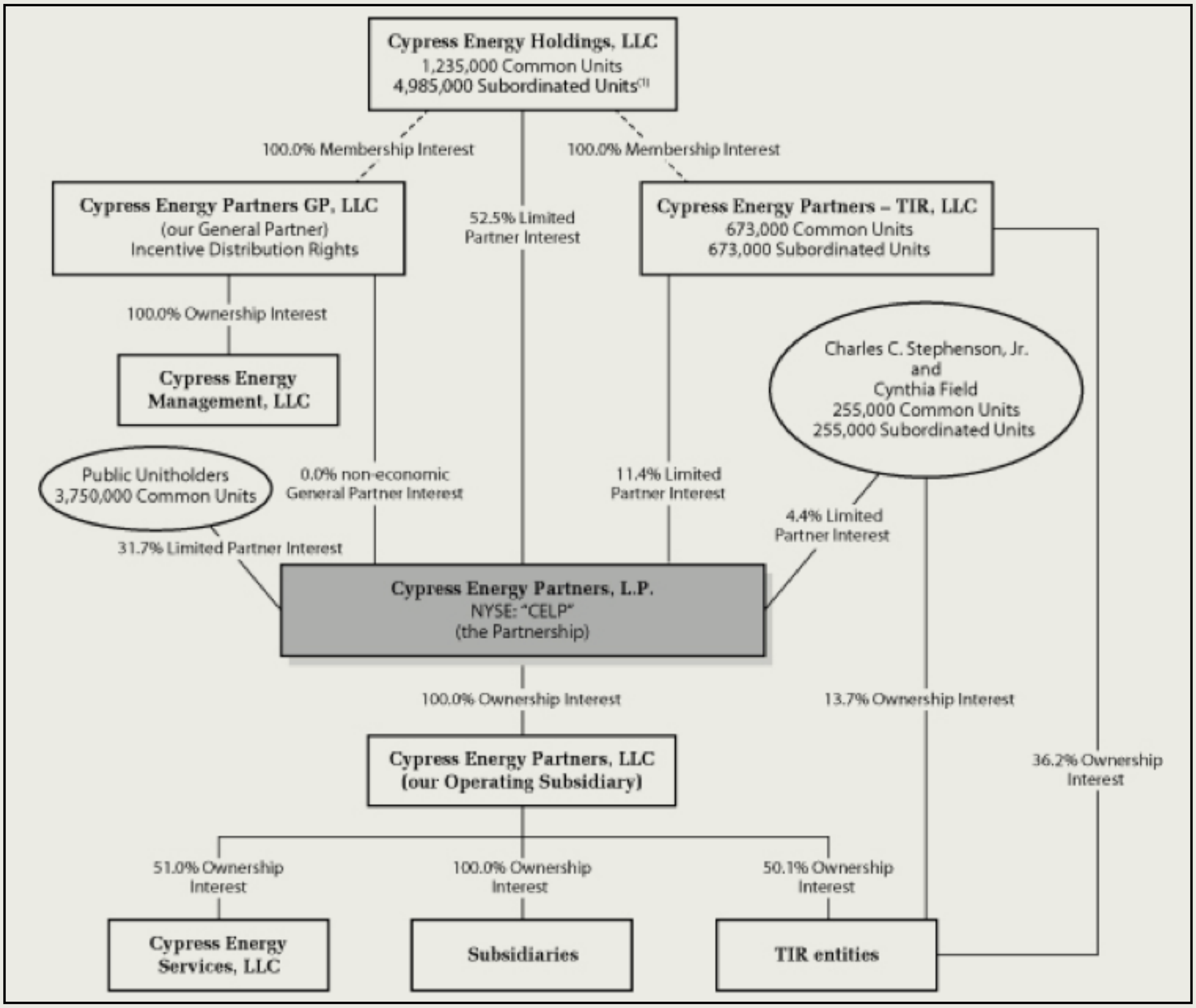
Pipeline Inspection and Integrity Services—This segment, which is operated though CELP's ownership interest in Tulsa Inspection Resources, LLC and certain affiliated entities (collectively, the "TIR entities"), provides independent inspection and integrity services to various energy, public utility and pipeline companies. The inspectors in this segment perform a variety of inspection and integrity services on midstream pipelines, gathering systems and distribution systems, including data gathering and supervision of third-party construction, inspection, maintenance and repair projects. The results of the Pipeline Inspection and Integrity Services segment are driven primarily by the number and type of inspectors performing services for the TIR entities' customers and the fees they charge for those services, which depend on the nature and duration of the project.

Who: All of the equity interests in CELP's general partner are owned by Cypress Energy Holdings, LLC, which is owned by Charles C. Stephenson, Jr., various family trusts and a company controlled by the Chief Executive Officer of CELP's general partner, Peter C. Boylan III. Mr. Stephenson has over 50 years of experience as a leader in the oil and natural gas industry. He was the founder, Chairman and Chief Executive Officer of Vintage Petroleum prior to its sale to Occidental Petroleum in 2006 and is currently the Chairman of Premier Natural Resources, a private oil and natural gas exploration and production company. Mr. Boylan has extensive executive management experience with public and private companies and currently serves as a director of two public companies, MRC Global Inc. and BOK Financial Inc., with significant energy, oil and natural gas customers.

Significance: With its unique focus on the energy services industry, CELP highlights the growing diversity in the MLP space. CELP also serves as an example of the continued trend in Oklahoma-based MLPs.

JOBS Act Benefits: As an emerging growth company, CELP took advantage of two important provisions of The Jumpstart Our Business Startups Act (the "JOBS Act") through (i) the submission of its initial draft registration statement to the SEC on a confidential basis and (ii) taking advantage of certain exemptions from reporting and other regulatory requirements that are otherwise applicable generally to public companies, including reduced disclosure of historical audited financial statements.

Structure: CELP's unique business segments, coupled with Mr. Stephenson's ownership interests, yield a slightly non-traditional MLP organizational structure:



(1) Includes units held by a wholly owned subsidiary of Cypress Energy Holdings, LLC (20.8% of common units and 83.4% of subordinated units) and management (no common units and 0.8% of subordinated units).

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CAPITAL MARKETS **UPDATE**

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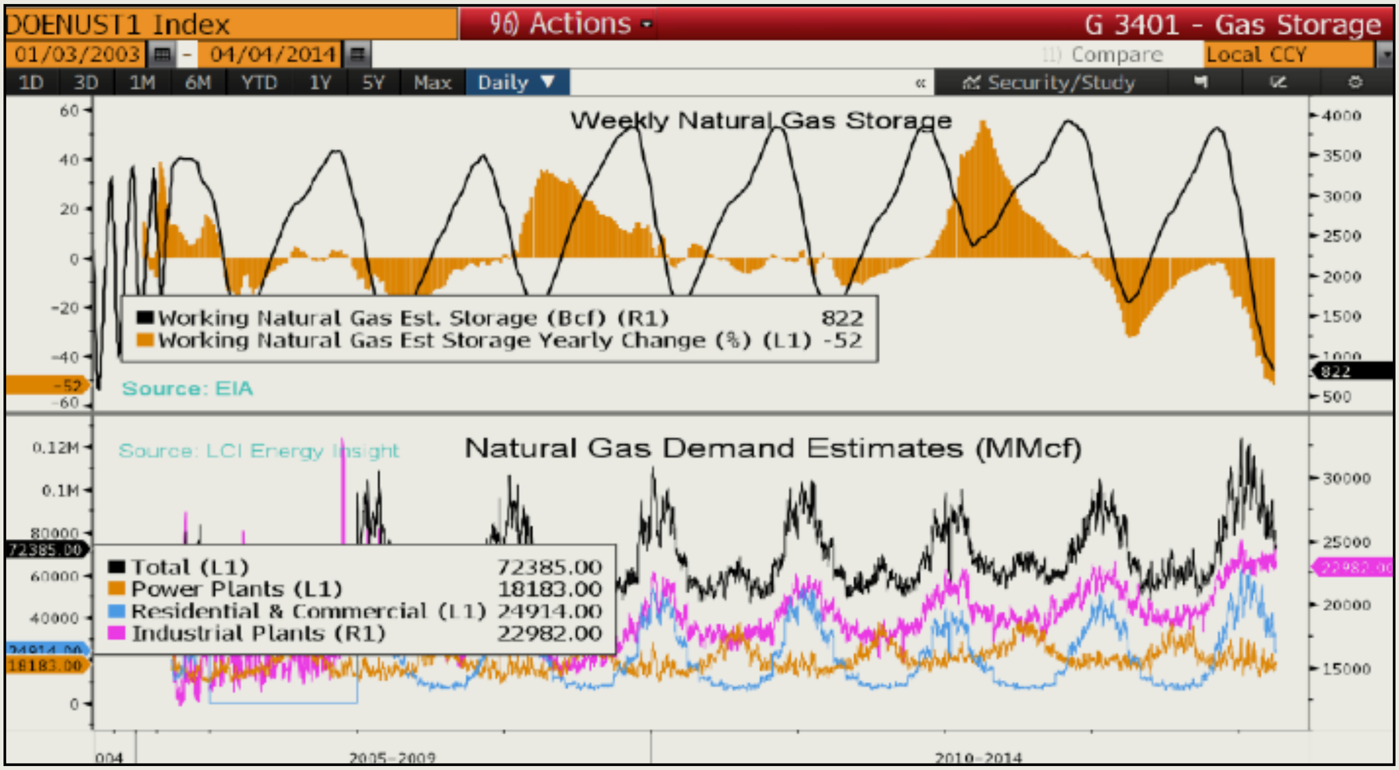
After one of the nastiest winters we can remember, the supply of natural gas in storage is the lowest in over ten years. The graph below shows the correlation between gas in storage and demand for natural gas.

Graph 1. Weekly Natural Gas Storage and Demand, Source: Bloomberg



Gas in storage is 54% below its historical five year average and demand is resilient with industrial users up over 17% from last year. Natural gas producers will be hard pressed to refill storage this year, buoying prices. Over the longer term horizon, increased shale development will allow for natural gas exports. Seven export facilities have been approved with more than 9 Bcfd capacity and more than twenty export facility permits have been filed for approval. The initial LNG exports will come from the Cheniere owned Sabine Pass facility in the fourth quarter of next year. One of the approved permits was for the Jordan Cove Terminal in Oregon. Williams Partners will be a 50% owner of the pipeline that will transport gas to the facility from pipeline connections in northern California.

Another newsworthy energy issue came to the forefront during the cold winter, a shortage of propane in the mid-contintent region. A late, wet, bumper corn crop required more propane for drying combined with an extremely cold early winter to cause a severe shortage of propane for home heating. Most restrictions on propane transportation and sales in the mid-contintent were relaxed to meet the needs of shivering homeowners. At one point during the winter, spot propane prices exceeded $4 per gallon versus a normal cost of $1.09 per gallon over the last five years. The surge in propane demand and prices benefitted our holdings of ONEOK and NGL Energy Partners.

There have been many new asset types approved and marketed as MLPs over the last few years including crude refining, various types of shipping, frac sand suppliers, water treatment and disposal (from fracking), and olefin crackers. Recently Sandridge Energy suggested they may spin out their water treatment operations as an MLP and Chevron stated they would rather sell their midstream assets that qualify for an MLP rather than establish their own MLP. Activist funds are pushing QEP Resources to separate their midstream assets and we expect other funds to exert pressure on additional exploration and production companies that have substantial midstream operations. The total market capitalization of the MLP sector exceeds $600 billion currently and we expect it to continue growing as new MLPs are launched.

// CAPITAL MARKETS UPDATE

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Historically MLPs expand their operations through acquisitions and organic projects. To pay for these capital intensive expansions, MLPs typically raise capital through new issues of debt, tapping credit lines, and issuance of equity. The sale of equity units is what matters most to us. The habit has been to arrange large secondary offerings to raise equity in sizeable amounts at one time. The underwriters peddle the offering to all their known MLP buyers at a discount to the latest market price, usually causing a 3-5% decline in the market price of the issuer's units. When institutional investors anticipate a secondary offering is needed to fund expansion plans, they hold back on purchases of the issuer, limiting its appreciation. To avoid this market price impact, some MLPs began using a program called "At the Market" offerings where sizeable purchasers could buy secondary units from the issuer through an underwriter without the issuer suffering a big discount to the market price. Markwest and Targa have been very effective in raising capital through this program without impacting the market price. Nothing is more frustrating to a portfolio manager than one of your favorite holdings making a secondary offering at month end or quarter end. We hope more MLP CFOs will take advantage of this program to raise capital and lessen the price depreciation impact of secondary offerings.

The bond market's strength so far this year suggests the economic momentum most economists projected for this year has dissipated some. If the bond market is correct, and Gross Domestic Product increases less than 3.0%, then the Federal Reserve will keep short term interest rates low for longer. That bodes postively for the MLP sector. Development of the shale regions will offer many growth opportunities for our MLP positions, leading to higher cash flows and payouts. With interest rates behaved, the outlook is good for the sector.