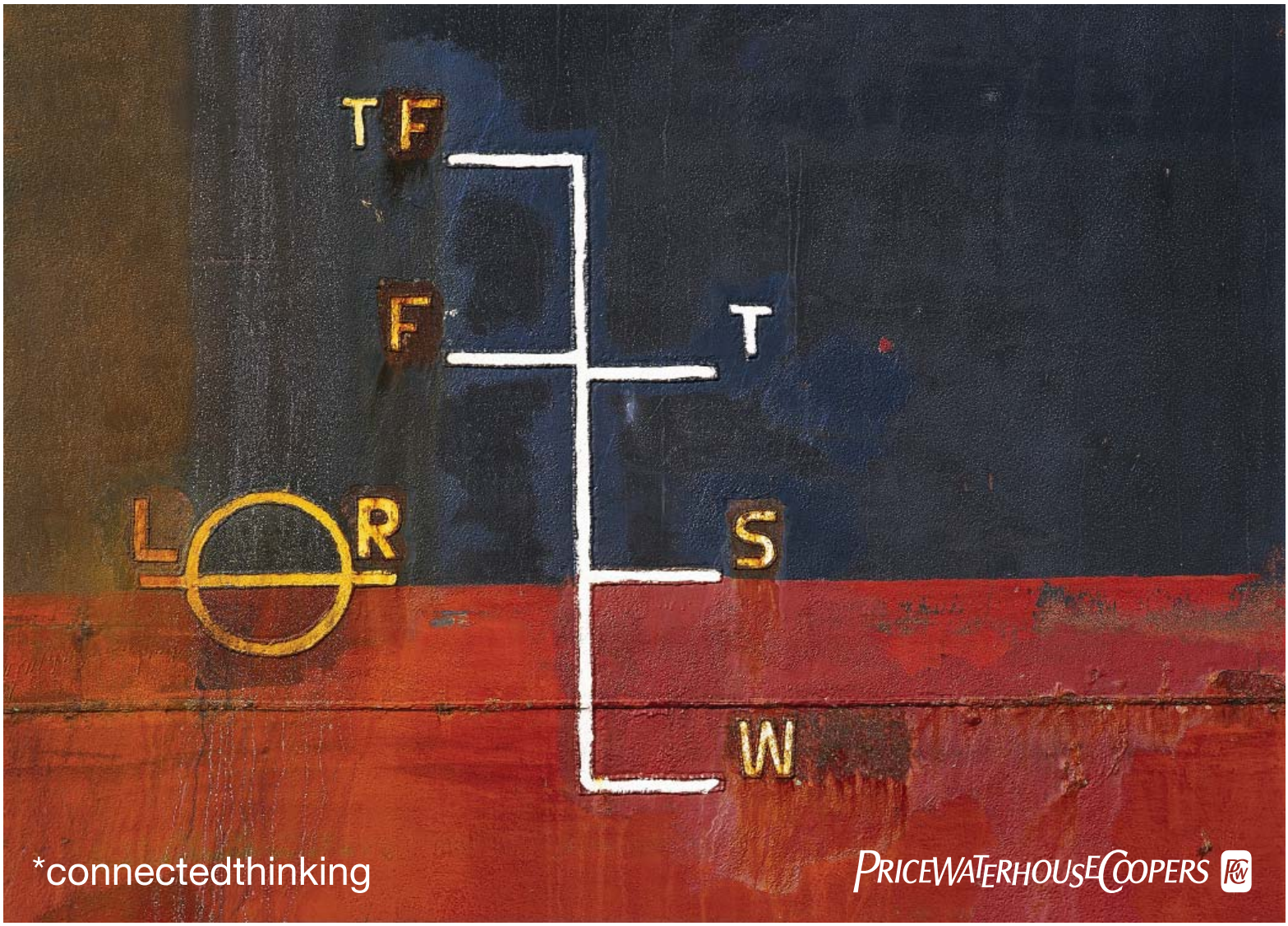
Energy & Mining
Master Limited Partnerships

Gauging your success*

Guide to the principal issues and challenges faced by new and existing MLPs



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Introduction and overview

Master limited partnerships ("MLPs") have become increasingly attractive organizational structures and investment vehicles. This is primarily due to renewed interest from the capital markets as a result of their profitability, stability of cash flows, distribution yields and ability to optimize returns on assets.

Taxed as partnerships, MLPs have certain advantages that corporations typically lack, including:

- As flow-through vehicles, MLP earnings are not subject to income taxes at the partnership level and are taxed only once, at the unitholder level based on the unitholder's share of MLP's earnings and not distributions received;
- Cost of capital for MLPs is often lower as a result of the income tax benefits associated with this structure;
- Non-cash expenses such as depreciation and depletion reduce MLP taxable income, directly benefiting unitholders;
- An investor's tax shield is replenished as limited partner units are traded in the marketplace; and
- Stable and relatively high yields and regular distributions.

The MLP structure has been in place for over twenty years. In its early years, the MLP structure was utilized primarily by large companies to monetize midstream assets with stable cash flows, which were considered undervalued in the marketplace. Since 2001, MLPs have steadily increased in popularity due to the strong market performance of MLPs resulting from increased dividend yields and total return potential, an increasing trend towards "growth" focused MLPs and an increase in institutional ownership. While historically composed of energy midstream assets, MLPs have become more diversified including assets in the exploration and production, oilfield services, LNG, shipping and coal sectors. Additionally, in the past few years, several general partner interests in MLPs have undertaken initial public offerings.

Some factors that lead to the decline in favorability of MLPs in the 1980s were:

- Difficulty in paying distributions due to lack of stable assets and consistent cash flows;
- Insufficient focus on reinvestment in the business, underlying assets and cash flow distribution policies;
- Exposure to commodity prices and an inability to effectively hedge commodity prices for a long period of time; and
- Insufficient equity capital available from the public markets to finance growth.

As a result of past experiences, it is increasingly important to understand the key issues and challenges facing MLPs today and to know the right questions to ask when operating as an MLP. By understanding the potential issues and challenges, MLPs can better identify and manage risks, tax and financial reporting requirements, governance issues, and compliance needs.

For a new MLP in the process of formation, this publication is designed as a supplement to the PricewaterhouseCoopers Roadmap for an IPO—A Guide to Going Public, specifically to address the unique aspects of and challenges faced by MLPs. Additionally, this publication is designed to answer certain questions for mature MLPs as well. This publication is based on our experiences gained and lessons learned in assisting a multitude of MLPs with developing tax efficient strategies, establishing and streamlining the processes for periodic internal and external reporting requirements, auditing financial information for regulatory filings, completing valuations and detailed due diligence on proposed asset acquisitions/disposals, and preparing information for Federal and state income tax reporting.

We have a long history in working with MLPs and their management teams and our commitment to MLPs is evident by the establishment of our MLP K-1 Processing Group in 1973—the team that is likely to be processing the K-1s for your MLP. This publication is intended to raise thought provoking questions which may serve useful to you as you address the challenges that your organization is currently facing or is likely to face as it progresses from a new to a mature MLP. Our experts have seen many issues that could have been avoided or managed more effectively and efficiently had certain questions been raised and properly addressed in a more timely manner.

Stages of and important considerations for an MLP

Structuring and forming an MLP

- Form new legal entity(ies)
- Establish a management and governance structure specific to MLP requirements and needs
- Form the Board and identify independent Directors
- Develop and implement taxation strategies (for Sponsoring Entity and MLP)
- Determine appropriate tax-qualifying assets for inclusion in MLP
- Determine structure and substance of equity compensation plans
- Determine budgeting, forecasting and cash management processes and procedures
- Anticipate processes, systems and data needs necessary to sustain MLP's daily and on-going operations
- "Carve-out" or "drop down" assets into the MLP and ensure detailed information can be provided
- Evaluate existing systems and data meet detailed information and reporting requirements of the MLP

Operating as an MLP

- Conduct assessment of SEC financial reporting requirements
- Consider financial statement requirements of being a public company, including SOX 404
- Account for and assess new applications of generally accepted accounting principles
- Prepare annual and quarterly tax provisions calculations
- Ensure appropriate resources are in place to comply with operational and financial reporting requirements
- Evaluate existing resources on their expertise to provide the MLP K-1 Processing Group with timely information
- Identify all state and other tax filing requirements
- Assess current financial systems to provide the level of detail required for tax reporting
- Consider how to receive, track and respond to unitholder calls

Executing the growth strategy

- Agree, communicate and monitor the growth strategy
- Manage exposure to commodity prices
- Conduct due diligence and establish integration MLP-specific plans
- Develop processes to provide adequate information on assets of subsequent acquisitions
- Determine purchase price allocation
- Evaluate targeted assets ability to generate qualifying income and be long lived to maintain the expected distributions over time
- Optimize data management and financial processes

How do you respond to these considerations?

Structuring and forming an MLP

Governance and structure

Has the MLP's management and corporate governance structures been determined?

Newly formed entities will likely require a separate governance structure. Special consideration should be given to the governance structure on whether to form as a limited partnership or a limited liability corporation. During the formation of the MLP, the sponsoring or existing entity might establish a separate management team and a separate audit committee for the MLP, especially if the sponsoring entity has other operations that are outside of the MLP. It is important to determine roles and responsibilities for MLP management and governance teams. New board members may need to be identified and appropriate qualifications (including independence and potential conflicts) assessed. If current and potential resource needs are not timely assessed, the sponsoring entity's existing limited resources may be unrealistically stretched and the right people may not be in key positions to achieve the MLP's or sponsoring entity's strategic or governance objectives. Potential investors may discount the value of the MLP if the appropriate governance structure is not in place.

It is important to ensure the MLP's partnership agreement is appropriately written to consider the MLP's unique characteristics and the desires of the sponsoring entity. Kick-out and participating rights (along with performance arrangements) impact the consolidation treatment by the sponsoring entity under EITF 04-05: Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. Careful consideration of this issue is required to ensure appropriate accounting is followed.

Has the MLP's formation and structure been reviewed to determine the overall tax impact?

There are many choices when forming and structuring an MLP. For instance, a determination needs to be made whether the sponsoring entity will be a general partner, an operating company or some other structure and what assets and operations will comprise the MLP. The right structure can increase the MLP's market value and the sponsoring entity's ability to raise capital, as well as reduce the complexity and overall compliance burden. In order for the MLP to achieve the favorable tax treatment it is afforded, it must derive at least 90% of its income from qualifying sources. As a result the selection of assets that would be included in the MLP will be very important. A review of the MLP's and sponsoring entity's formation needs to occur to also determine if tax benefits can be derived by applying Internal Revenue Code ("I.R.C.") Sec. 754: Optional Adjustment to Basis of Partnership Property. This election can impact the tax gain recognized by pre-IPO investors.

Has the structure and substance of equity compensation plans been considered?

Compensation plans have both financial reporting and tax considerations, and there are significant ramifications based on vesting periods. The MLP will need to establish appropriate equity compensation plans to adequately incentivize management of the sponsoring entity to achieve the MLP's goals. Further, vesting of awards issued under the MLP's equity compensation plans may be linked to distribution growth and might contain performance conditions or other features which, when assessed with plan provisions, may result in liability classification of these awards under SFAS 123R: Share-Based Payment. As a result, when establishing equity compensation plans or granting awards under such plans, it is important to consider whether such plans and awards are sufficient to adequately motivate management and are properly evaluated against the guidance set forth in SFAS 123R to ensure the appropriate accounting for any granted awards. Additionally, as the complexity of valuation of equity compensation awards under SFAS 123R is often increased due to performance conditions contained in the awards and for awards associated with entities which are not yet publicly traded, consideration needs to be given to ensuring resources with appropriate valuation skill and experience are available.

Information requirements

Have budgeting, forecasting and cash management requirements been anticipated?

Valuations of MLPs and their publicly traded units are highly dependent on an MLP's ability to maintain and ultimately increase distributions. Cash reserves may need to be established to provide for debt service, future distributions or future operational requirements of the MLP such as maintenance capital, among other things. Accordingly, processes and procedures over budgeting, forecasting and cash management (including the determination of "available cash," which is generally the amount available for distribution to partners) need to provide accurate information to ensure management has the necessary information in a timely manner to make appropriate decisions regarding the determination of distribution amounts and to mitigate the risk of potential disruptions or adverse events related to the payment of distributions.

Have processes, systems, and data been anticipated to sustain the MLP's daily, on-going operations?

For an MLP to maintain sustainable operations, analysis should be conducted on the processes, systems and data necessary to support the MLP's new and on-going operational, tax and financial information needs, as well as compliance and reporting requirements. It is critical to determine the extent to which the current environment can support the MLP's information and reporting requirements, identify needed modifications to address known gaps and establish a clear plan to ensure modifications are put in place. For example, MLP's require frequent valuations and allocations of such value to specific assets and a reconciliation of financial assets to tax assets. If not planned properly, a significant level of manual intervention may be required to generate necessary MLP operational, tax and financial information. Time constraints and a lack of understanding regarding MLP reporting complexities often lead to taking "short cuts" in implementing planned systems and processes. As a result, the MLP may not be able to rely on its own systems and data to generate the information that is required and must rely on inefficient manual procedures. A comprehensive assessment should be conducted by personnel with appropriate skills and adequate time to perform this assessment. Gathering and assessing information will require cross-departmental cooperation and involvement as well as a dedicated group to manage this assessment. This group should communicate the plan and expected costs to appropriate members of management.

Are all tax-qualifying assets appropriate for inclusion in the MLP?

MLP investors usually have a clear preference for fee-based revenue streams versus commodity-based revenue streams. Many assets, particularly in the upstream and midstream energy sectors, which qualify for inclusion under the tax rules, may be less attractive to investors given the extent of commodity price exposure. Underlying earnings streams may be difficult to initially discern based solely on a description of the asset held by the MLP. For example, gas processing facilities may earn revenues based on a simple tolling arrangement (fee-based) where the owner of the gas pays a flat fee on a volumetric basis for processing. On the other hand, the processing facility may be compensated by keeping a share of the liquids which are separated from the residual (e.g., methane), which is a commodity model (percentage of proceeds or "PoP"). Another commodity-linked revenue model is "keep-whole" processing, where the processing facility is compensated based on the spread between liquid and gas prices on a per unit (either MCF or BTU) basis (FRAC Spread). While these examples relate to gas processing, a similar fee-based vs. commodity-based earnings feature can exist in many other businesses. Risks related to market-based volatility can be mitigated through a hedging program. A thorough analysis of the earnings stream during initial due diligence is important in making the final decision as to the fit and value of the proposed MLP assets.

What are the challenges to dropping down assets into the MLP from a financial reporting standpoint?

MLPs are generally formed with assets or businesses contributed by the sponsoring entity, acquired from third parties or a combination of the two. SEC regulations and related interpretations provide guidance on what constitutes a business and whether "predecessor" financial statements or financial statements of acquired entities will be required in a Registration Statement on Form S-1 or other filings with the SEC. The process of preparing "carve out" financial statements or financial statements for entities which have not historically prepared financial statements can be challenging and very time consuming. There is likely to be an audit requirement on the dropped-down business to meet the SEC reporting requirements of the MLP. Initially, the MLP is usually small, and assets dropped into it are relatively large. While the sponsoring entity may already be audited, the external auditor may need to perform additional audit procedures on the assets relative to the MLP's materiality level.

The additional audit procedures can create a significant barrier to quickly achieving a successful drop down. Technical accounting issues can arise when the balance sheet accounts of the business to be contributed to the MLP are inseparable from the balance sheet accounts of a larger business unit or segment. Determining whether the audit can be done, or whether a case should be made (if possible) that the asset is not a business for purposes of applying Rule 3-05 of Regulation S-X, should be carefully considered before a commitment is made by management to drop the asset into the MLP. Management must also determine the appropriate timing of planned regulatory and other filings.

Can the sponsoring entity provide the required detailed information on the assets dropped down into the MLP?

Depending on industry characteristics, there are complexities involved in tracking activities related to specific assets as well as the level of detail needed. The information required to be maintained by the MLP may be more detailed than previously maintained at the sponsoring entity level. The MLP tax compliance process requires a detailed listing of certain asset attributes and description of all items included in the initial transfer from the sponsoring entity. The level of detail for tax purposes is extremely important since this determines the basis for all inputs into the MLP investor tax compliance system. For example, an upstream energy MLP will need to provide leasehold cost basis prior recapture exposure and other data such as production taxes, etc., by depletable property as defined by tax law. This asset information will be used to compute depletion separately for each unitholder.

Can the MLP's existing systems and data meet the new more detailed information and reporting requirements?

The requirement for detailed information regarding assets and property definitions are unique to MLPs and therefore necessitate a very deliberate design of supporting information systems. Existing systems should be assessed to ensure they meet the new requirements of the MLP. Asset data may need to be cleansed, augmented, converted and organized in new ways to meet the tax and financial reporting requirements of the MLP. For instance, some assets may need to be moved from the sponsoring entity's systems and ledgers to the MLP's systems and ledgers, while other assets may be acquired specifically for the MLP. In either case, data requirements must be clearly defined, existing systems and data measured against this requirement and improvements made to ensure compliance. The results of this assessment may necessitate the design of processes to reorganize data from the sponsoring entity's internal reporting structure into the MLP's internal reporting structure. A separate chart of accounts and cost centers may need to be determined for the MLP. Data may need to be cleansed if inaccuracies are found or data may need to be created to meet the more detailed requirements facing the MLP.

Throughout the data migration and manipulation process, comfort over the completeness and accuracy of the data migration will need to be obtained. The proper use of technology can make the required movements of information with much greater efficiency and a higher level of confidence than manual procedures. However, it is important to select and apply the appropriate technology and human resources to the task. While the necessary technology and resources may reside in-house, there may be a need to bring in specialists to assist with the timely identification and migration of data between ledgers and systems.

Operating as an MLP

External reporting requirements

Has an assessment of the SEC financial reporting requirements been conducted?

The need for audited carve out financial statements is discussed on the prior page. Additionally, the SEC Staff sets forth filing requirements for balance sheets of the sponsoring entity of a publicly traded MLP. As such, it is important to give consideration to the SEC's financial statement requirements to ensure such requirements are met on a timely basis.

Have the increased financial statement requirements of being a public company, including Sarbanes Oxley Section 404 ("Section 404") requirements, been considered?

When the MLP is required to meet Section 404 requirements, management will have to issue a Section 404 assertion, requiring the identification and evaluation of the internal controls over financial reporting specific to the MLP. Materiality may be significantly different for the MLP than the sponsoring entity. In addition, new processes and controls may need to be established and documented for the MLP to generate its financial information and support management's Section 404 assertion process. Initiating and assessing the MLP's Section 404 compliance efforts in a timely manner will provide management more time to focus on processes and controls significant to the MLP's financial reporting requirements, and will increase the likelihood that sufficient time is available to complete remediation efforts, if necessary. Management must identify key risks and establish a framework for designing and assessing their internal control structure using a top down approach according to Audit Standard 5. Also vital is assessing whether the existing accounting and internal audit functions have the resources and bandwidth to timely perform the MLP management's assessment of internal controls over financial reporting.

Have new applications of generally accepted accounting principles been assessed and accounted for by the MLP?

The formation of the MLP may expose management to certain transactions with which accounting and financial reporting personnel may have limited or no previous experience. For example, incentive distribution rights, which are common in MLP equity structures, are generally considered a participating security under EITF 03-06 "Participating Securities and the Two-Class Method Under FASB Statement No. 128," and must be accounted for in the MLP's determination of earnings per unit under SFAS 128: Earnings Per Share. Also, the equity structure of the MLP will need to be evaluated to ensure proper recognition, allocation, classification and presentation of equity transactions in the MLP's financial statements since there will likely be multiple classes of equity in the MLP. As a result, management will need to assess the application of generally accepted accounting principles as well as ensure MLP personnel are appropriately trained and sufficient procedures and internal controls are established to ensure such transactions are appropriately accounted for in the MLP's financial statements.

Are all quarterly and annual tax provision calculations known and assigned to appropriate personnel?

Depending on the structure of the MLP and the recent trend in states moving to tax the income of flow-through entities, the MLP could be subject to income taxes in various states (e.g., Texas Margin Tax), or in foreign jurisdictions if the MLP has foreign assets. Any corporate subsidiaries owned by the MLP will also be subject to tax. Management must be proactive in identifying and calculating tax liabilities required to be reported in the MLP's financial statements.

Are resources in-place to timely comply with operational and financial reporting requirements?

Because MLPs often generate growth through acquisitions, financed by a combination of debt and equity issuances, MLPs are typically very active filers with the SEC and reporting requirements in these areas can be complex and time consuming. The MLP has its own operational and financial reporting needs separate from the sponsoring entity's requirements. Management should proactively address whether the MLP has the appropriate resources to meet its needs.

Tax reporting requirements

Do existing resources have the expertise to provide the MLP K-1 Processing Group with the information in time to deliver the K-1's to investors?

The MLP compliance process is unique due to the timing and required level of detail. The overall compliance process is driven by the print date, which is complicated by the limited number of printers that can process an MLP's tax filings and K-1s. All MLPs are assigned a print date, and tax information must be provided by a series of deadlines to ensure the print date can be met and K-1s supplied to investors on the date promised. MLP investors expect their K-1 with plenty of time to integrate the data into their personal tax returns for tax estimates due on April 15. Any missed deadlines may result in market reaction and decreased trust.

The initial set up and data input for the MLP K-1 Processing Group is time intensive and requires an extensive amount of information. This process occurs from January to March, an extremely busy time of year when companies have limited resources and flexibility. Since the MLP Units are traded daily, the MLP will need monthly financial statements to perform taxable income calculations. Tax basis and fair market values of all MLP assets at the tax property level are required on a monthly basis to compute basis adjustments for partners purchasing units. Gathering data and performing these calculations can take a substantial amount of time and resources unless the MLP's processes and information systems are already in place to provide this level of detail.

The MLP may need to assess its current system or consider modification or implementation of a new system to meet its tax reporting requirements. In addition, the accounting and tax departments' depth of resources needed to routinely process and monitor MLP transactions and to accurately prepare annual tax filing obligations must be realistically assessed. Not performing these assessments could result in missed filing and printing deadlines, which could impact the trading value of the MLP Units and possibly the sponsoring entity.

Have all of the state tax filing requirements been identified?

Jurisdictions where the MLP is required to file tax information are not only determined based on where the MLP has operations, but also by where the unitholders reside. The MLP needs to determine the states in which it will be required to file and provide the necessary state apportionment factors for those states where the MLP operates and where the unitholders reside. Unitholders are given state related information that must be reported on their individual state income tax returns. Certain states impose a withholding tax obligation on the MLP; therefore, it is important for MLPs to consider state tax obligations upfront.

Can the current financial systems provide the level of detail to meet the tax reporting requirements?

The complex MLP tax reporting requirements are complicated by the property reporting levels and the required timeliness. Implementing processes and/or systems that meet the MLP's specific reporting needs by converting monthly data into required tax reporting formats will save time and resources. Required accounting and tax information must be submitted timely to the MLP K-1 Processing Group so that unitholders receive their Federal and state information when promised. While these activities can be performed in-house, most MLPs outsource data processing due to the MLP's finite resources and system limitations. If these activities are performed in-house, resources, processes and systems will need to be put in-place to meet the rigid timing and data requirements.

Unitholder Interactions

How will the volume of calls to be received from unitholders be handled and tracked?

The MLP will have to respond to unitholder inquiries and the number of unitholders could be in the thousands. MLPs also attract a broader cross section of investors, ranging from individuals as retail investors to institutional investors. The MLP may need to establish a call center to handle unitholder inquiries regarding K-1s, distributions and other matters. Consider whether current systems and applications can handle the volume of unit distributions and repurchases or whether it is optimal to use a service bureau or the call center provided by the MLP K-1 Processing Group.

Executing the growth strategy

How are you going to execute your growth strategy?

The ability of an MLP to maintain and ultimately increase its quarterly distribution per unit is a critical factor in its long-term success. Growth can be achieved in many ways including pursuit of accretive acquisitions, execution of internal growth projects and sound management of operating costs. Ideally, some combination of these three vehicles will be utilized to mitigate the risk of changes in market conditions. As an MLP grows, it is important for management to maintain its focus on certain items such as budgeting and forecasting and financial reporting requirements, as these tasks often become more challenging as an MLP becomes larger and more complex placing additional demands on management's time and resources.

How are you going to manage exposure to commodity prices?

Most MLPs in the energy sector face exposure to changes in commodity prices, with the level of exposure varying based on the nature of the MLP's involvement in the energy sector. Hedging strategies are often utilized by MLPs to manage their exposure to changes in commodity prices as unplanned and adverse changes in commodity prices can impact an MLP's ability to meet its quarterly distribution goals. While hedging programs can assist with managing exposure to commodity prices, they also expose an entity to additional risks. For an MLP electing to utilize hedging programs, it is very important that appropriate policies and procedures, internal controls and risk management programs be placed into operation, along with appropriate oversight from senior management. Additionally, the application of SFAS 133: Accounting for Derivative Instrument and Hedging Activities and its related interpretations is very complex—it is essential that appropriate resources are in place to ensure proper accounting for hedging activities.

Have you considered due diligence and integration efforts?

It is critical to perform financial and tax due diligence on potential acquisition targets. Due diligence is necessary in order to determine the earnings run-rate of the business or assets, and whether there are any significant exposures, for example related to prior tax filings or environmental remediation. In addition, due diligence can help identify significant unrecorded liabilities, issues structuring concerns around corporate shared services, and working capital adjustment concerns at closing. Overall, management should focus on assessing whether an acquisition will be accretive and how it will impact the yield and distribution growth of the MLP.

Due diligence should also consider the accounting records, information technology capabilities, and accounting systems of the target. A target with insufficient books and records or system capabilities may make the integration and purchase price allocation processes much more difficult due to lack of data and possibly make the Section 404 compliance process more challenging. For instance, if a target does not have adequate fixed asset records, a buyer will have to create them, at their expense. This drives up the effective purchase price of the acquisition, and could cause the MLP to miss financial reporting and tax deadlines.

The MLP should consider whether they have the internal resources necessary to staff a due diligence and integration project, or whether they should use external consultants to assist their team in meeting deadlines. The MLPs that are consistently successful perform due diligence and integration with internal and external teams with a high degree of efficiency.

Have processes been developed to provide adequate information on assets in subsequent acquisitions and ensure integration of these assets into the MLP books and records in the appropriate level of detail?

The acquisition of a business or portfolio of assets, is generally a strategic component of an MLP's approach to growing distributable cash flows ("DCF"), and is an implicit component of an MLP's business model. This is of particular importance to upstream and mining MLPs whose cashflows are generated from depleting reserves. By increasing the DCF, the MLP is maximizing value to the unitholder. The unitholder can then take advantage of the pass-through nature of the structure. MLPs also present some complexities because of their two-tiered structure; generally, the limited partner units are publicly traded, while the sponsoring entity's are not. The ability to trade publicly creates liquidity for unitholders that is not normally available under a partnership structure.

The recognition and measurement of acquired assets, assumed or incurred liabilities and equity shares issued are required to be accounted for under SFAS 141: Business Combinations. Purchase price allocations call for the bifurcation of the portfolio of assets into tangible and intangible asset classes, the identification of liabilities and complete this exercise within a year of the acquisition.

In those cases where existing MLPs are acquiring additional assets the allocation of the purchase price to tangible and intangible assets and resulting goodwill will be based on the total cash flow projections of the business or assets. These projections are critical and need to be well vetted by management. However, a level of complexity is added where an acquisition and hence valuation includes both the MLP and sponsoring entity. In these cases it is important to have a clear understanding of the incentive distribution rights ("IDRs") and the resulting impact the cash flow projections have on those rights. In certain instances the IDRs themselves may be separated as an identified intangible. Third party expertise can often assist in these more complex areas.

While a valuation done for SFAS 141 purposes will allocate the value of the assets realized on the day of the transaction, it is also critical to consider the "Day 2" implications of a transaction, as it relates to asset and/or goodwill impairment and the impact of the purchase accounting on a go-forward basis.

Will targeted assets generate qualifying income and be long lived to maintain the expected distributions over time?

Identifying possible asset targets for the MLP may require extensive research, valuation, and due diligence. Each asset may bring additional risks, advantages, and requirements. For example, upstream asset property definitions may have several issues related to I.R.C. Section 614, and this definition determines the basis for all inputs into the MLP K-1 Processing Group template. Accounting information by property will have to be generated on an ongoing basis to determine compliance with I.R.C. Section 614. Much of this information such as gross revenue and property expenses may be provided at the well level, but must be assigned to the tax property per I.R.C. Section 614. Also, the cost basis and accumulated depletion of all contributed assets will need to be identified, determined and aggregated to the tax property level.

How PricewaterhouseCoopers can help

Our Assurance and Financial Reporting professionals can help as follows:

- Perform audits of historical financial statements and carve outs
- Assist with the interpretation and application of new and existing accounting and financial reporting requirements
- Identify possible SEC reporting requirements based on planned or anticipated structures and transactions

Our Financial Due Diligence, Valuation and Integration professionals can assist throughout the deal cycle, specifically:

- Provide valuation assistance (FAS 141) as well as impairment analysis (FAS 142 and FAS 144)
- Provide buy- and sell-side financial and tax due diligence for any acquisition of target companies or assets
- Provide pre- and post acquisition integration and structuring diligence
- Provide walkthrough of the Registration and IPO process
- Provide guidance to insure your financial statements are SEC compliant
- Provide pre- and post IPO valuation analysis
- Assist with post-acquisition purchase accounting issues
- Perform critical assessment of integration activities, including identifying areas that should be streamlined for future asset integrations

Our Tax professionals can help throughout the entire MLP process in the following areas:

- Assist and review formation and structure to determine the most efficient tax structure
- Assist in identifying tax qualifying assets appropriate for inclusion
- Assist management in identifying state tax issues such as Nexus determination and apportionment factors
- Provide assistance in the tax provision process
- Compile and review of MLP compliance templates, prepare and review of MLP tax returns, and provide ongoing technical support during the MLP tax preparation process

Our Business Processes, Information Systems and Internal Controls professionals can assist in these areas:

- Assess existing systems used for financial, operational and tax reporting
- Define systems requirements and integrate systems and processes to meet operational and compliance needs
- Design and assess alignment of the internal control structure to meet requirements of Section 404 and execute the controls testing in support of the 404 assessment
- Assess the design, alignment and effectiveness of existing processes and control documentation emphasizing a top down approach
- Perform risk assessments to identify and rate financial reporting risks and link risks to designed controls
- Develop process and control documentation, including risk and control matrices, process flows and narratives
- Develop an internal audit function, perform risk assessments and execute internal audit testing in areas of operations, compliance and financial reporting

Our Risk, Governance and Financial Effectiveness professionals can assist in these areas:

- Develop frameworks for driving the strategy into the organization
- Link actionable management information to the strategy and accountabilities to reduce the volume and complexity of management reports and improve performance monitoring
- Improve operational actions through the use of dashboards and scorecards
- Streamline the planning cycle to increase the value of planning process
- Automate planning, reporting and analytical reporting processes through standard data models and systems
- Establish and evaluate hedging programs
- Assess capabilities for administering and monitoring commodity risks
- Model, review contract and mark-to-market valuations
- Assess and design processes to manage compliance with regulatory and FAS 133 requirements

Our Data Management professionals can assist in conducting a thorough assessment of the MLP's processes, systems and data, identifying gaps against the MLP's financial, tax and regulatory reporting requirements and developing and executing an implementation plan to enable the MLP to meet these requirements, including:

- Define data attributes and quality standards needed for assets to be dropped down
- Define and execute procedures for improved process efficiency and systems integration
- Define and execute procedures to extract, cleanse, augment, manipulate and load existing data

Contacts

To speak to a member of our Energy MLP practice and discuss your specific needs, please contact Martha Carnes, PwC US Energy Assurance Leader, at 713-356-6504, Niloufar Molavi, PwC US Energy Tax Leader, at 713-356-6002 and Fred Cohen, PwC US Energy Advisory Leader, at 646-471-8252. Our team of Partners in our Energy MLP practice includes the following who we also encourage you to contact:

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