



Chapter 8

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Creative Financing Mechanisms: MLPs, Royalty Trusts & Net Profits Interests

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Synopsis

Table with 2 columns: Section Number and Page Number. Includes sections for Introduction, Master Limited Partnerships, Royalty Trusts, and Comparison of MLPs and Royalty Trusts.

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§ 8.01. Introduction.

The purpose of this chapter is to describe what has been characterized by some as creative or innovative financing mechanisms: master limited partnership (MLPs) and royalty trusts. The use of net profits interests in royalty trusts will also be discussed briefly.

In point of fact, neither MLPs nor royalty trusts are considered by the author as either creative or innovative. They have been used for nearly 20 years. Rather, it is the adaptation of MLPs and royalty trusts to solve sometimes difficult combinations of legal, tax, accounting and economic problems that *may* justify the use of such adjectives.¹

For the reader to assess the qualities of MLPs and royalty trusts, he or she must be somewhat familiar with those legal, tax, accounting and economic issues faced by the client considering the use of such a mechanism. This chapter will seek to deal with those issues.

§ 8.02. Master Limited Partnerships.

[1] — MLPs Defined.

MLPs are, simplistically, nothing more than publicly traded partnerships. They are typically limited partnerships under state law² and are always listed on a stock exchange (most often the New York Stock

¹ It should be noted that, although much has been said and written about MLPs and royalty trusts – and this chapter will merely add to that library – a relatively small number of each have been formed and exist today. Since 1986, only 30 MLPs have been formed and only 10 publicly traded royalty trusts have been executed in the United States.

² One publicly traded limited liability company treated as a partnership for federal income tax purposes and engaged in an active business (through affiliates) was traded for several years before it “went private.”