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Client Alert

News Flash

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Midstream MLP Merger Mania Maintains Momentum

The market's notable uptick in MLP-to-MLP M&A activity, often preceded by an acquisition of the target MLP's general partner, follows a trend we recently identified.

At least five MLP M&A transactions have been announced this month that exhibit some of the key trends we identified in our recent webcast, Master Limited Partnerships: M&A and A&D, and our Client Alert. These trends include consolidation, diversification and the purchase of the MLP's general partner as a first step toward acquiring the underlying MLP. We summarize and review all five transactions in this Client Alert.

Recap: Strategic Benefits of MLP GP Buyouts

An MLP's acquisition of another MLP's general partner offers the acquirer several possible strategic benefits, such as the ability to grow the incentive distributions as the target MLP grows through sponsored drop downs, potential tax advantages, the ability to control multiple MLPs in diversified sectors, limited capital contribution requirements and the ability to control the target MLP and its growth strategy.

Summary of Recent MLP M&A

The following five MLP transactions were announced in October 2014:

1. On October 1, 2014, Enterprise Products Partners LP agreed to acquire the general partner of, and limited partner interests in, Oiltanking Partners LP for US$4.41 billion.

Enterprise Products Partners LP announced its acquisition of a 64 percent limited partner interest in Oiltanking Partners and its two percent general partner interest and related incentive distribution rights for US$4.41 billion, including US$2.2 billion in Enterprise units and US$2.21 billion in cash. Enterprise also paid US$228 million to an affiliate of Oiltanking Holding to purchase notes receivables and accrued interest due from Oiltanking partners and its units. Enterprise has proposed to buy the remaining public stake in Oiltanking Partners in a unit-for-unit exchange at no premium to Oiltanking's pre-announcement trading price.

2. On October 13, 2014, Targa Resources Corp. agreed to acquire Atlas Energy, LP for US$1.9 billion and Targa Resources Partners LP agreed to acquire Atlas Pipeline Partners, LP for US$5.8 billion.

In a transaction involving two levels of public companies, Targa Resources Corp. agreed to acquire Atlas Energy — which owns the general partner interest and certain limited partner interests in Atlas Pipeline Partners as well as other midstream assets — and Targa Resources Partners agreed to acquire Atlas Pipeline Partners. As a result of the two transactions, Targa Resources Corp. will own the general partner and a nine percent limited partner interest in Targa Resources Partners, which will own Atlas Pipeline's business.

3. On October 16, 2014, Westmoreland Coal Company agreed to acquire the general partner interests in Oxford Resource Partners LP for US$30 million and contribute the royalty-bearing coal reserves to Oxford.

Westmoreland Coal Company has agreed to acquire the general partner of, and certain limited partner interests in, Oxford Resource Partners LP in a deal that provides Westmoreland with access to an MLP structure. In the transaction, Westmoreland will acquire Oxford's general partner and contribute certain royalty-bearing coal reserves to Oxford in return for Oxford common units. Following these transactions, Oxford will continue to operate as a publicly traded MLP and Westmoreland will control the general partner and own 77 percent of the limited partner interests in Oxford.

4. On October 19, 2014, QEP Resources Inc. agreed to sell its natural gas gathering and processing business, including the general partner and certain limited partner interests in QEP Midstream Partners LP, to Tesoro Logistics LP for US$2.5 billion.

QEP Resources agreed to sell its midstream business to Tesoro Logistics LP for US$2.5 billion in cash. In the transaction, Tesoro will acquire the general partner interest and 58 percent of the limited partner interests in QEP Midstream Partners.

5. On October 26, 2014, Williams Partners LP announced that it had agreed to acquire Access Midstream Partners LP to form a US$50 billion enterprise value midstream partnership.

Following the Williams Co. acquisition of the general partner of, and approximately 50 percent of the limited partner interests in, Access Midstream Partners in July 2014, Williams Co. announced this week that its two controlled MLPs — Williams Partners and Access Midstream Partners — have agreed to merge. Following the completion of the merger, Williams Co. will own the general partner and incentive distribution rights, as well as 58 percent of the common units, in the combined MLP.

Structural Approaches May Lead to Differing Results

Acquirers have taken three different approaches to these and other recent MLP transactions involving the acquisition of the general partner interest in the target MLP:

1. Announce the acquisition of the MLP's general partner with the intention to acquire the underlying MLP, ***without proposing a purchase price for the MLP*** (Tesoro Logistics/QEP Resources).

2. Announce the acquisition of the MLP's general partner with the intention to acquire the underlying MLP, ***while publicly proposing a purchase price for the MLP*** (Enterprise Partners/Oiltanking Partners; Williams Companies/Access Midstream; and, in July of this year, NGL Energy Partners/Transmontaigne Partners).

3. Announce the acquisition of the MLP's general partner ***simultaneously with the announcement of the acquisition of the underlying MLP*** (Targa Resources/Atlas Energy).

The best structural approach to take is likely deal specific. The results have so far been mixed for the transactions in category 2 — in which the proposed purchase price for the publicly held limited partner interests in the underlying MLP was announced. Access Midstream's public unitholders received more favorable consideration through the conflicts committee negotiation process than had been originally proposed, while Transmontaigne Partners' conflicts committee and NGL Energy Partners terminated merger discussions.

Conclusion

As the MLP market continues to evolve, the long-awaited midstream MLP consolidation wave finally appears to be upon us. Consistent with the trends we highlighted in September 2014, we expect sponsors and management teams will continue to seek to consolidate in order to achieve growth and operational diversification.

If you have questions about this *Client Alert*, please contact one of the authors listed below or the Latham lawyer with whom you normally consult:

William N. Finnegan IV
bill.finnegan@lw.com
+1.713.546.7410
Houston

Ryan J. Maierson
ryan.maierson@lw.com
+1.713.546.7420
Houston

C. Timothy Fenn
tim.fenn@lw.com
+1.713.546.7432
Houston

John M. Greer
john.greer@lw.com
+1.713.546.7472
Houston

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