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Energy Infrastructure

Stifel Nicolaus Equity Research
Master Limited Partnerships (MLPs)
Best Ideas Call 12/02/2010

Selman Akyol	Justin Kinney, CFA	Brian Brungardt Jr.
(314) 342.2158	(314) 342.2164	(314) 342.8570
akyols@stifel.com	kinneyj@stifel.com	brungardtb@stifel.com

All prices, ratings, and estimates in this report are as of 11/30/2010 unless otherwise noted.

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All relevant disclosures and certifications appear on pages 28-31.

Key Industry Topics

- ***Natural Gas***
  - Focus on shale development creates opportunities for new capital to be deployed in a variety of business models:
    - Gas gathering – Upfront capital investment, longer payback horizon, producer commitments needed to justify expansions;
    - Gas processing – Often completed in tandem with gathering development, commodity price exposure, many seeking fee-based arrangements given the premium afforded cash flow stability in the MLP structure.
    - Gas transmission – New supply drives capital intensive pipeline development, construction risk often mitigated by long-term commitments ahead of capital outlay, Interstate pipelines likely reservation fee contracts while Intrastate may be volume dependent.
  - Regulatory risks remain with respect to fracturing technologies
    - Pennsylvania's on again/off again production tax discussion is back on ($0.39/Mcf proposed by House, double that of nearby West Virginia);
    - Hydraulic fracturing of shale to stimulate production remains a concern;
      - Watershed pollution near eastern population center is primary focal point but issue has come to light in other locales as well
    - EPA comments on New York environmental impact statement a forbearer of federal standards?
  - Inventory Levels
    - Working gas storage ended 2009 at approximately 14% above the trailing five year average, a cold winter and warm summer have aided storage levels, all else equal, but gas in storage remains high by historical standards (9% above five-year average at beginning of November)

- ***Natural Gas Liquids***
  - Answering the Marcellus "liquids question":
    - Additional fractionation capacity needed as drilling ramps-up; but, where does ethane go? Major pipeline proposals on the table; we anticipate more than one project needed for ultimate supply in the region.
    - Propane logistics aided by local demand, ability to transport on certain refined products pipeline;
    - Rail and truck loading likely a short term solution if modest drilling/completion continues.

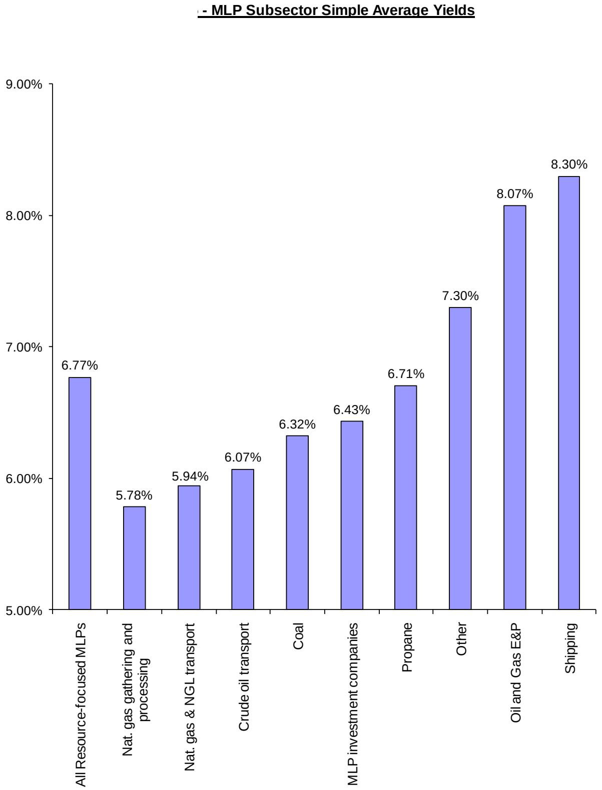
- ***Crude/Refined Products***
  - Asset disposition by major oil companies providing fodder for MLP acquisitions into 2011.
  - Conservation continues to impact volumes longer-term, in our view; margin aided by blending requirements.

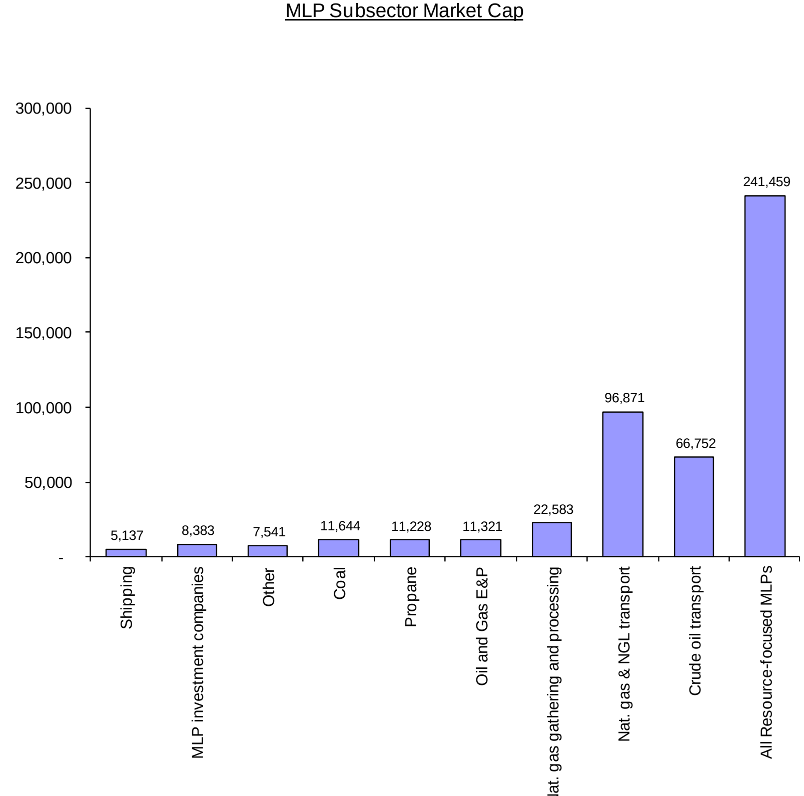
- ***Capital Cost/Access***
  - Concern over capital access has waned and cost of capital has declined significantly for most partnerships over the prior year. That said, we believe access to, and cost of, capital remain a key driver of MLP valuations. New gas supplies, shipping regulations, consolidation, and acquisition opportunities provide a number of avenues to deploy new capital, however, we believe the scale of many projects leads to the benefits accruing to the larger, investment grade rated partnerships with a sizeable short term credit availability and a relative capital cost advantage.
  - Elimination of Incentive Distribution Rights (IDRs) at partnerships with high current splits continues to be a visible trend. While the move clearly aids the overall capital cost over time we see the largest benefit in pursuing acquisitions as higher multiples can be paid. The tradeoff being that significant dilution pressures the coverage of the current distribution especially in light of current valuations and the premiums being paid over the market price.

• Sub-Sector Risk Segmentation

We view the MLP sub-sector stratification of risk as follows:

We expect a higher distribution coverage ratio for those in the more risky (right side) of the continuum





• Currently, the market is assigning high risk premiums to the Shipping and Exploration and Production sub-sectors based on observed yield. While high relative yields remain in various partnerships, most exhibit operating and/or financing risks that require a number of scenarios to occur in their favor to continue growing cash distributions, in our opinion.

• We expect continued differentiation in the MLP universe with players on the lower end of the risk continuum maintaining a low relative yield when compared to the higher risk counterparts.

Sources: Factset data and Stifel Nicolaus Research format

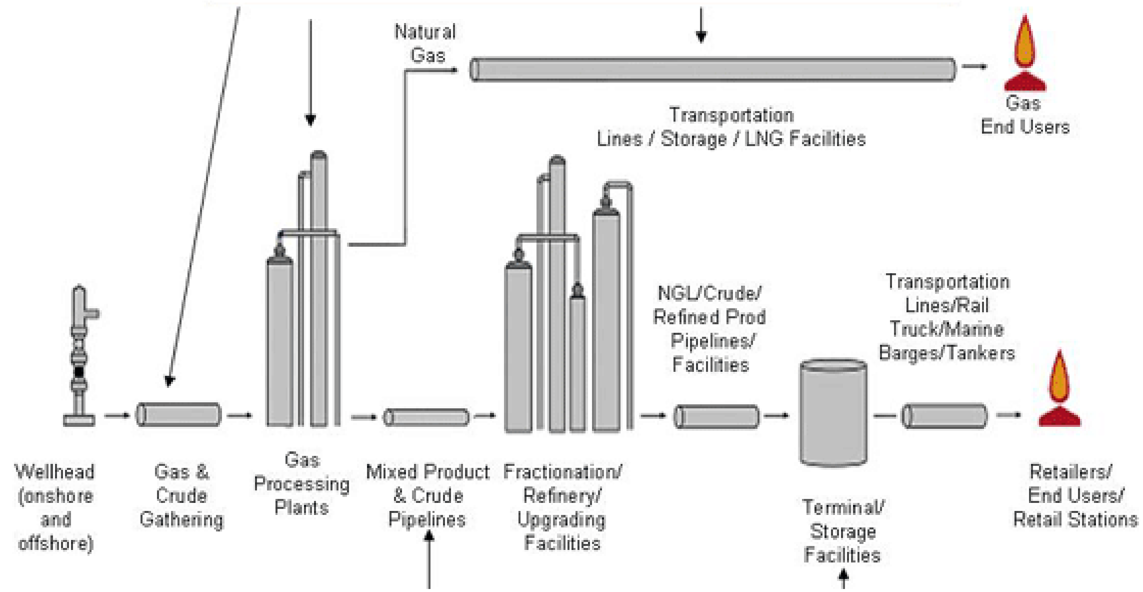
• Sub-Sector Focus: Midstream Assets

Our coverage is predominantly focused in the midstream portion of the energy value chain.

Population and energy demand growth coupled with relocation of natural gas production away from the Gulf of Mexico drive the long-term growth of assets owned by midstream MLPs.

CPNO, MWE, WPZ, NGLS, WES, DPM, APL, EPD, OKS, KMP, ETP

PNG, NKA, EPB, NRGY, EPD, ETP, OKS, KMP



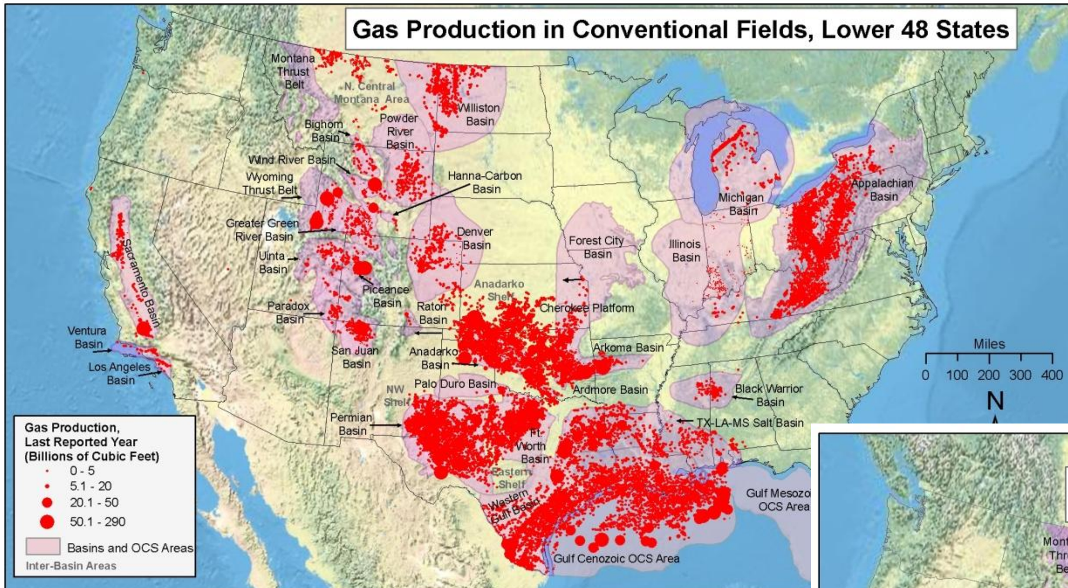
PAA, SXL, TLP, EPD, BPL, MMP, KMP, NS

PAA, SXL, TLP, EPD, BPL, MMP, KMP, MMLP, NS

Sources: Partnership filings; Stifel Nicolaus presentation

- **Commodity exposure ranges from nil to approximately two-thirds of operating cash flow** with long-haul natural gas pipelines at the lower extreme and modestly hedged natural gas processors at the upper bound.
- Volatility has been greatest in the most commodity sensitive sub-sectors. In our universe, gathering and processing partnerships have seen the largest impact as lower prices and slowing volumes pressured revenues in 2009 before rebounding substantially in 2010.
- In summary, we maintain that distribution growth is off the table for most G&P partnerships in 2010 but 4Q10 should be the turning point and FY11 likely sees a return to DPU growth for the group, in our opinion.

- **Changing Supply Dynamics Providing Opportunity for Capital Deployment**



Source: Energy Information Administration based on data from HPDI, IN Geological Survey, USGS
Updated: April 8, 2009

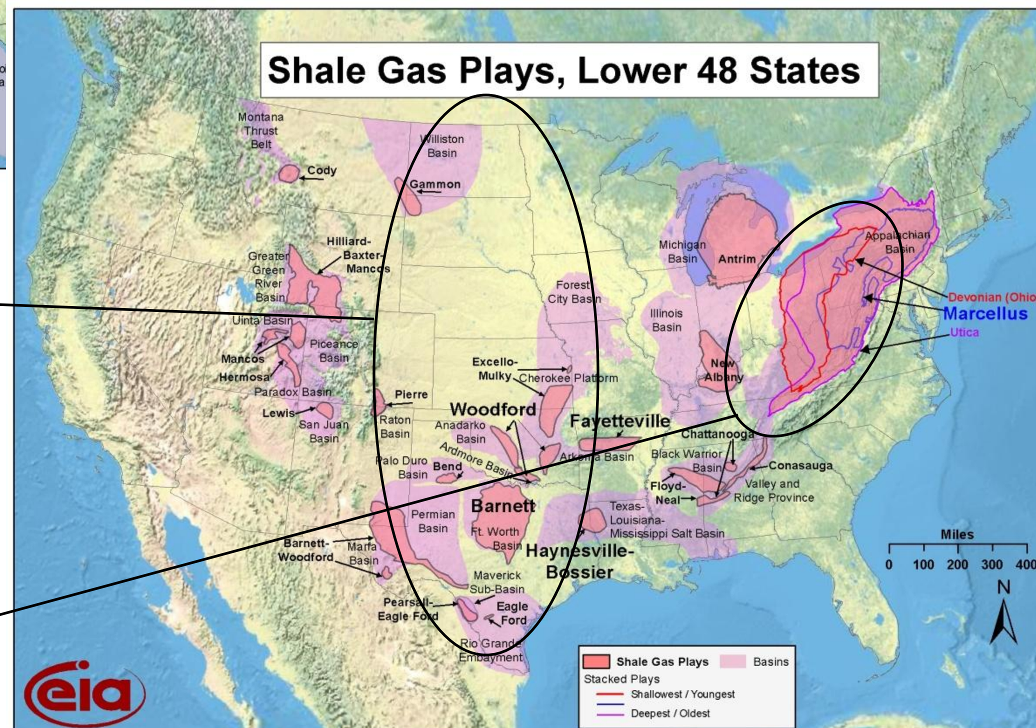
- Low relative natural gas prices are directing drilling toward liquids (both crude and NGL rich gas)
- More efficient rigs pushing number of well completions per rig higher
- Greater overall volume and new geographies stoking demand for additional infrastructure (Oil, Gas, and NGL)

"Sweet spot" of ongoing infrastructure investment:

- Oil focused drilling in Colorado, N. Dakota, S. Texas producing gas and significant NGLs
  - Legacy infrastructure in place but more capacity is needed longer term
  - OKS, EPD, KMP, NGLS, CPNO building large scale infrastructure to accommodate NGLs
  - PAA, EPD developing additional oil storage and takeaway capacity.

Answering the Marcellus Ethane Question:

- Competing proposals from ENB, KMP, BPL, MWE/SXL



Source: Energy Information Administration based on data from various published studies.
Updated: March 10, 2010

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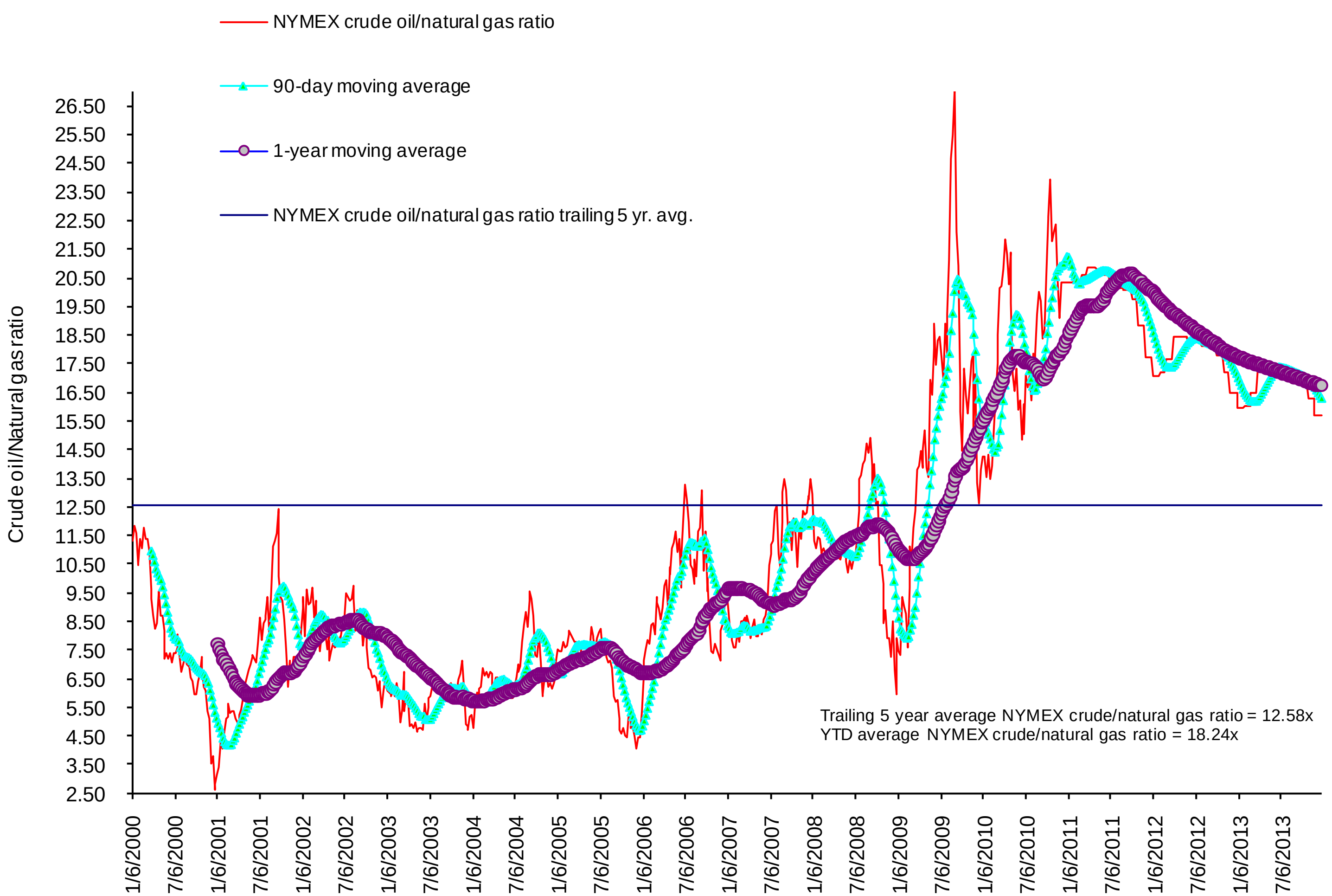
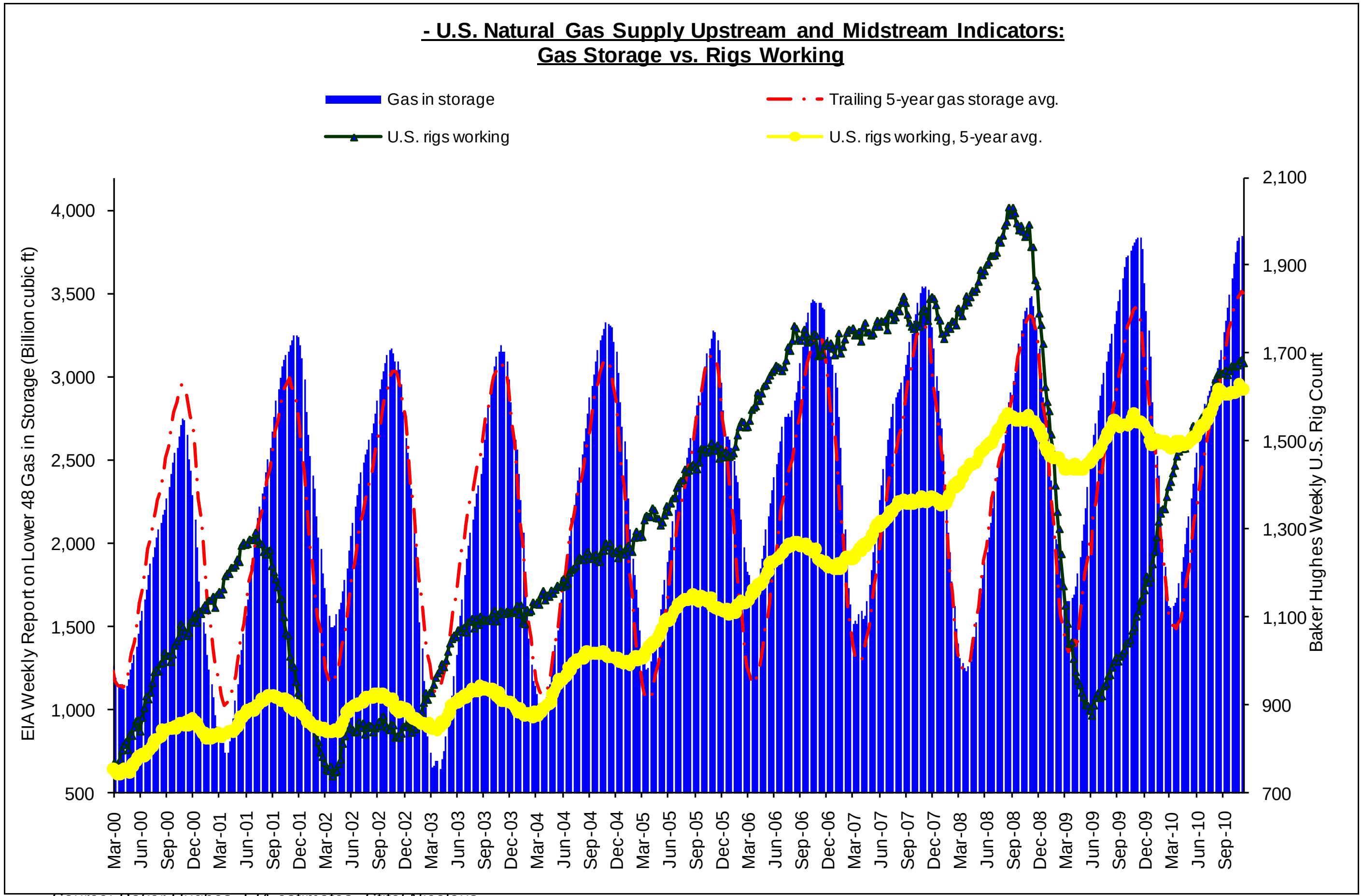
- **Crude/Gas Ratio a Proxy for Gas Processing and Fractionation Opportunities**
- Fractionation Spreads have rebounded significantly from January 2009 lows (see proxy below) on tight fractionation capacity and robust petrochemical demand.
- The relative pricing in crude oil to natural gas is now benefiting gas processors with keep-whole contracts (long NGLs and short natural gas). We also note that NGL pricing as a percent of crude oil has remained near the long term average of approximately 60% and now resides near 62%, an important metric for gas processors utilizing proxy hedges (crude oil hedges for NGL sales).
  - Processors with long liquids positions (MWE, WPZ, DPM, CPNO, APL, NGLS, OKS, EPD, ETP)



Sources: Factset data and Stifel Nicolaus

Near term storage, rig count metrics.

- The U.S. rotary rig count totaled 1,677 on November 19, 2010 versus the five year average of 1,617. Despite gas storage inventory remaining above the five year average the rig count continues to climb partially as a result of aforementioned liquids focused drilling. Further, rigs are increasingly more focused toward oil versus natural gas (57% gas vs. 66% a year ago, 77% in November, 2008).
- We note that as a result of a cooler than normal winter and warm summer the seasonal gas storage build has been weaker than expected as have the traditional summer/winter price differentials.



Source: Baker Hughes, EIA estimates, Stifel Nicolaus

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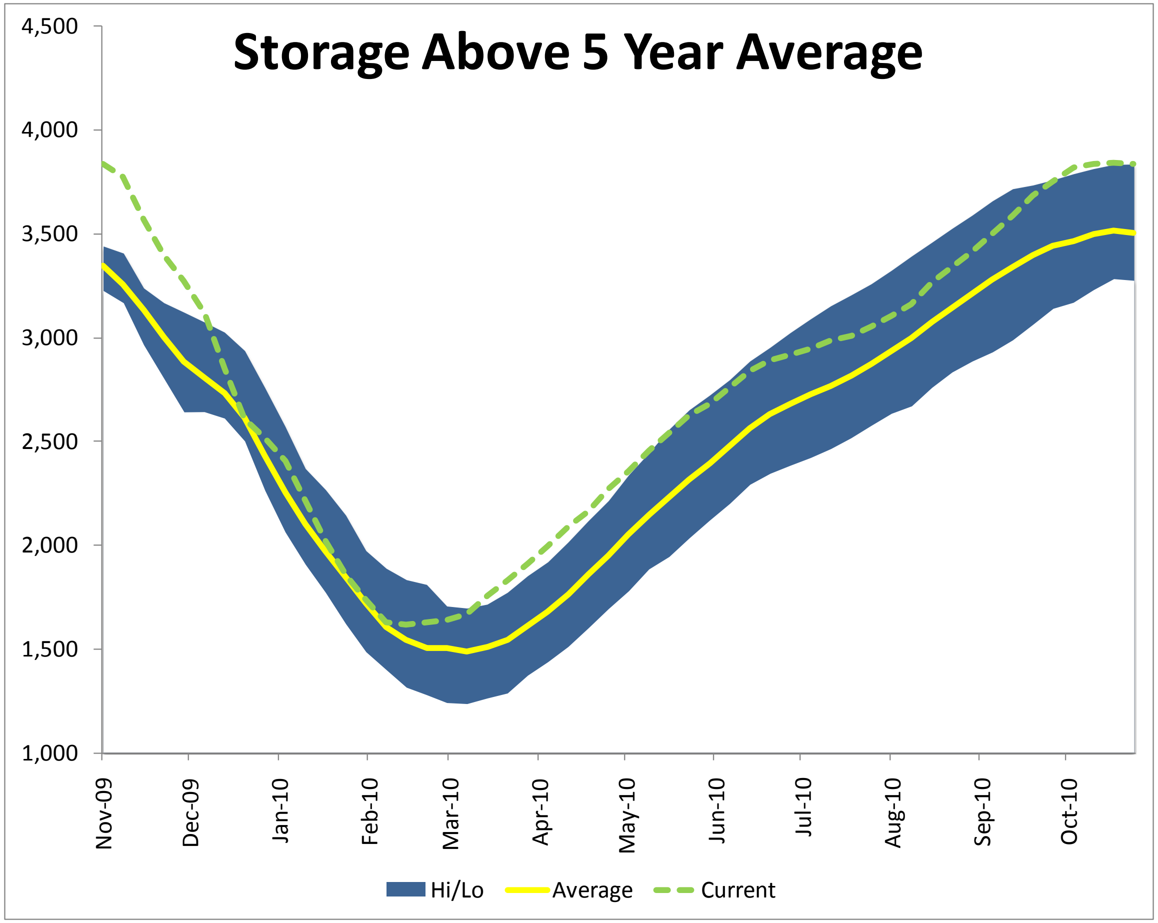
2010 storage build suppressed by unusual weather

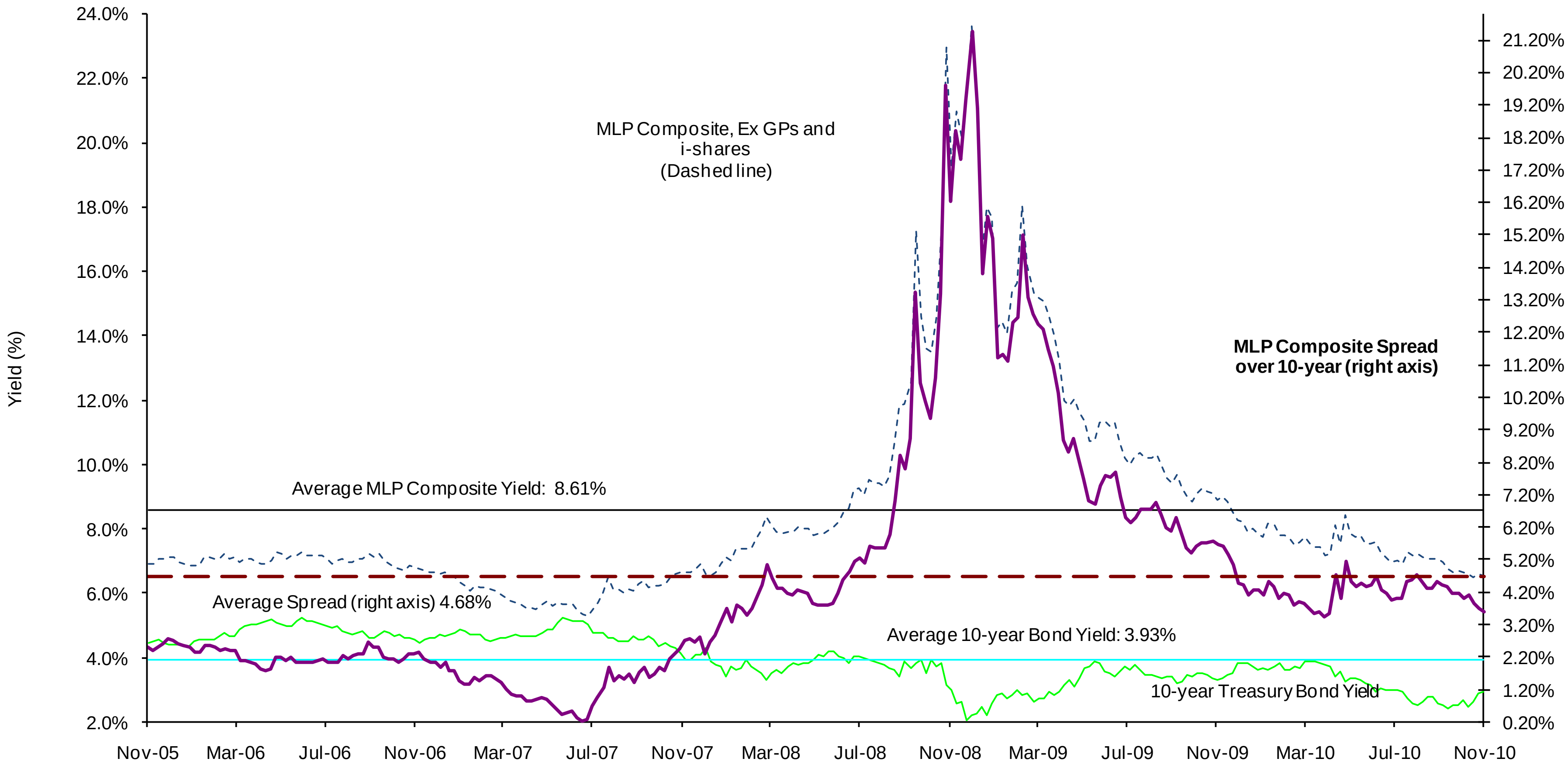
- The U.S. experienced the eighth coldest winter in 60 years this past heating season, supporting gas demand pushing inventory levels in line with the five year average.
- Following the seasonal build in the spring we were hit with the warmest summer in the past 60 years further limiting the supply build as a result of increased gas fired electric demand to meet the cooling load.



Source: Baker Hughes, EIA estimates, Stifel Nicolaus

- As yield-bearing instruments, MLPs have sensitivity to interest rates. The chart below shows the yield on the MLP composite (equal-weighted) vs. the 10-year U.S. Treasury Bond yield for the past five years.
- A divergence in yield can be seen with the spread over the 10-year widening dramatically to its highest level in ten years. While having narrowed **we believe opportunities remain for investors as long-term demand for energy infrastructure remains intact.** We believe the larger partnerships in the transportation sector (both oil and natural gas) offers the best risk/reward profile for long term holders.

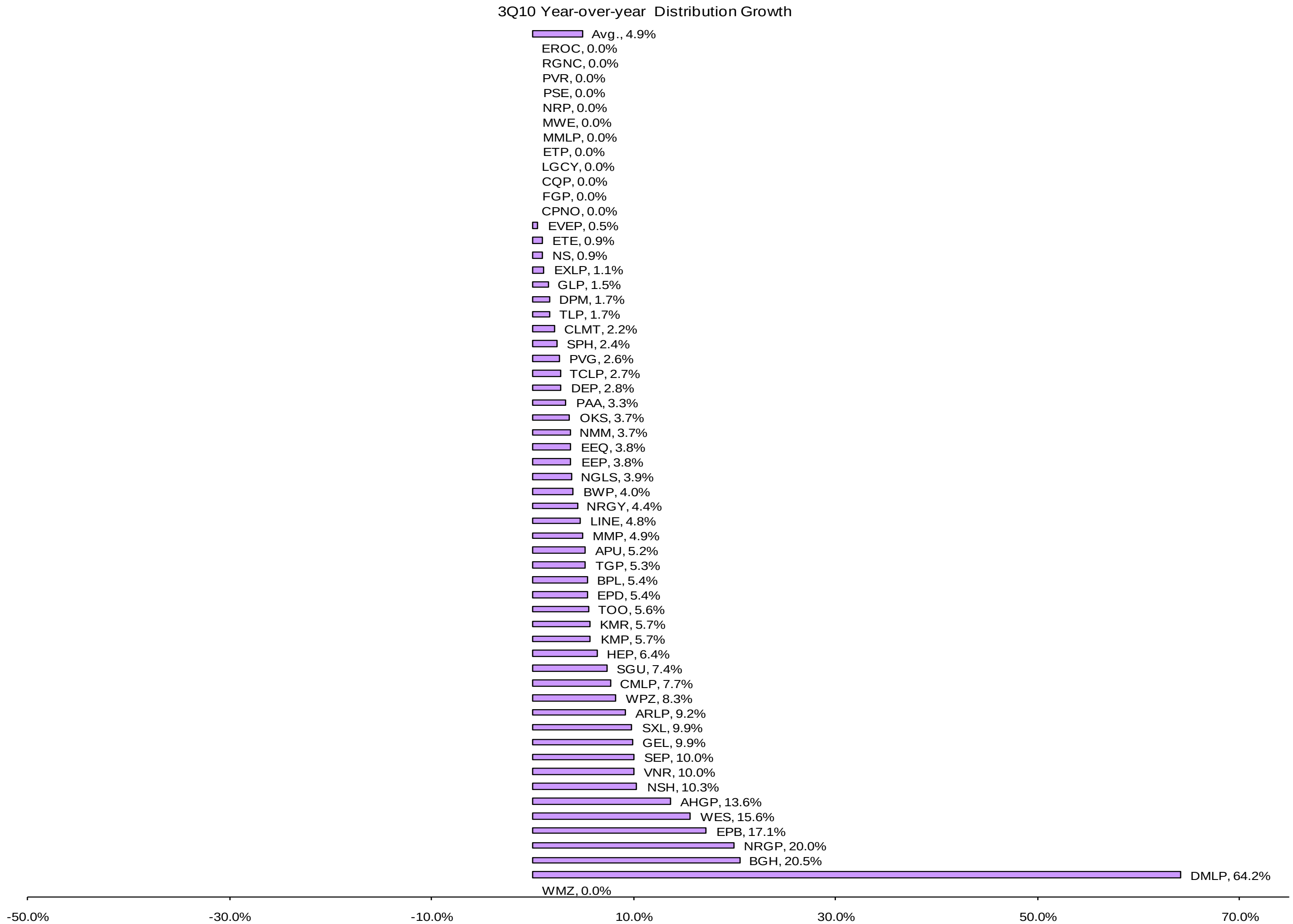
MLP Composite vs. U.S. 10-year Treasury Bond, 4-years



Sources: Data Factset; MLP Composite Stifel Nicolaus.

• Year-over-Year Growth in Distributions Rebounds.

- We believe that on the whole MLPs will continue their track record of distribution growth over the coming 12-18 months, partially a result of significant capital deployment opportunities in the current environment.
- As shown in the below graph, energy MLPs that paid a 3Q10 distribution produced an average of a 5.0% year-over-year growth in distributions. We note that we exclude partnerships that have suspended distributions for more than one quarter in our evaluation.



Sources: Partnership data; Stifel Nicolaus presentation

2010 YTD Review:

• Our MLP Composite Outperformed the S&P 500 for 2009 (Composite returned 36.5% vs. 8.5% for S&P 500).

• Industry market cap ended 2009 at approximately $160 billion.

• Current MLP Composite market cap is approximately $233 billion.

• Annual distribution per unit (DPU) growth has returned. The median year-over-year growth rate has rebounded from approximately 1% at the beginning of 2010 to 5% currently.

• **Spread to 10-year Treasury started 2010 at approximately 440 bps and has maintained a similar level YTD**, valuations continued to track higher as a result of declining yields in the 10-year note with a relatively constant spread.

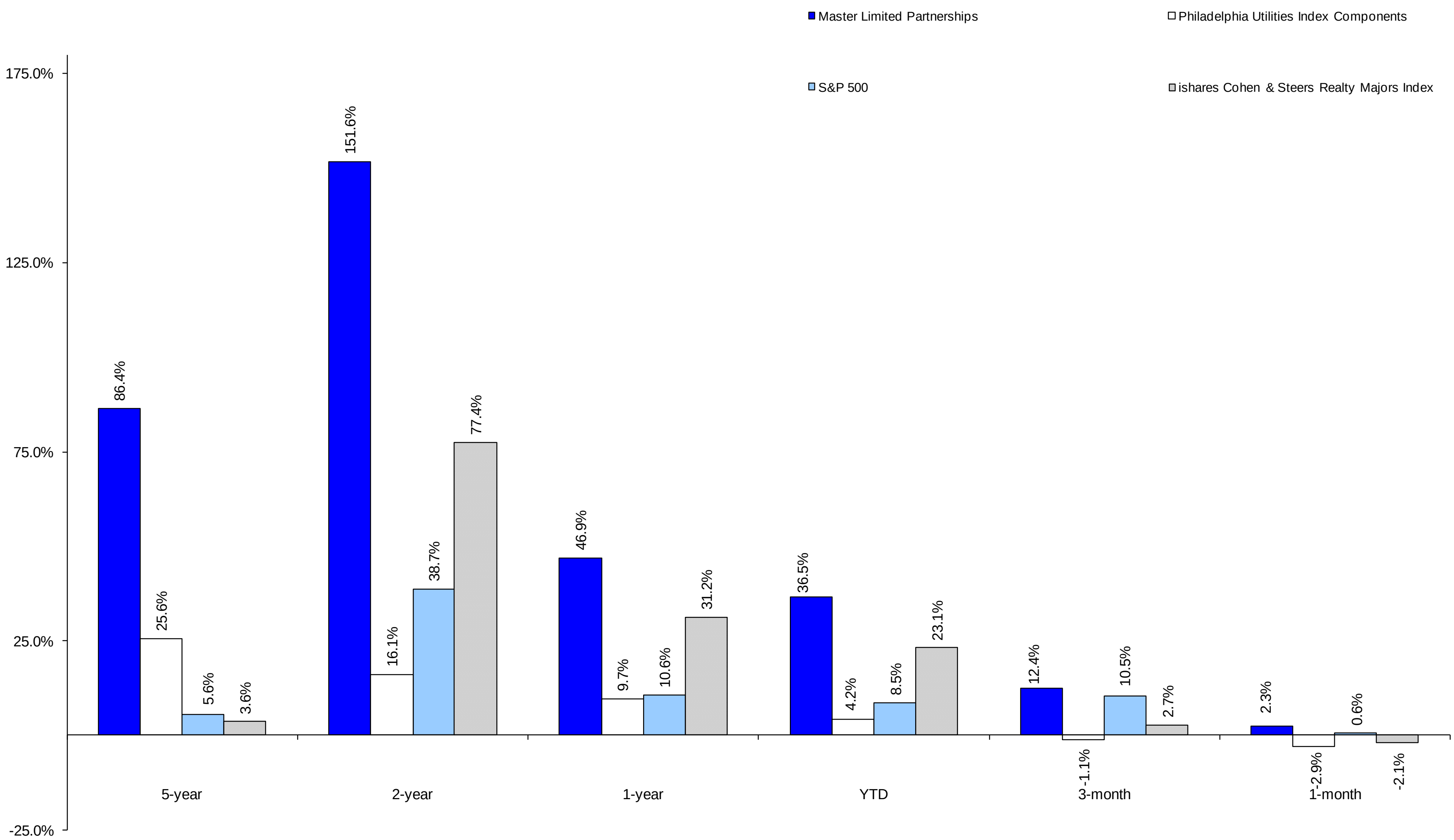
• **We believe interest in yield bearing alternatives to the fixed income market are driving investment in MLPs** and not drastic improvement in fundamentals or growing cash flow. While we believe near-term distribution increases will continue as partnerships benefit from 2010 capital investments **we believe double-digit growth rates are the exception to the rule for the coming year**.

• **We remain mindful of the pending wave of revolver refinancing on the horizon.** Nearly half of the approximately $40 billion of committed lines of revolving credit issued to MLPs will mature in 2011 and 2012. We are focusing investors on the larger players that we believe will successfully grow distributions in a variety of economic environments. Further, we anticipate the cost of revolving debt to rise upon renegotiation allowing those partnerships with a cost of capital advantage to pursue more, and more highly profitable, projects, all else being equal.

Sources: Factset data; Stifel Nicolaus Research presentation

- **MLP Composite Outperforms S&P 500 by a Wide Margin Over Various Periods (Pricing as of 11/18/10)**

- Historical Comparison of Index Total Return



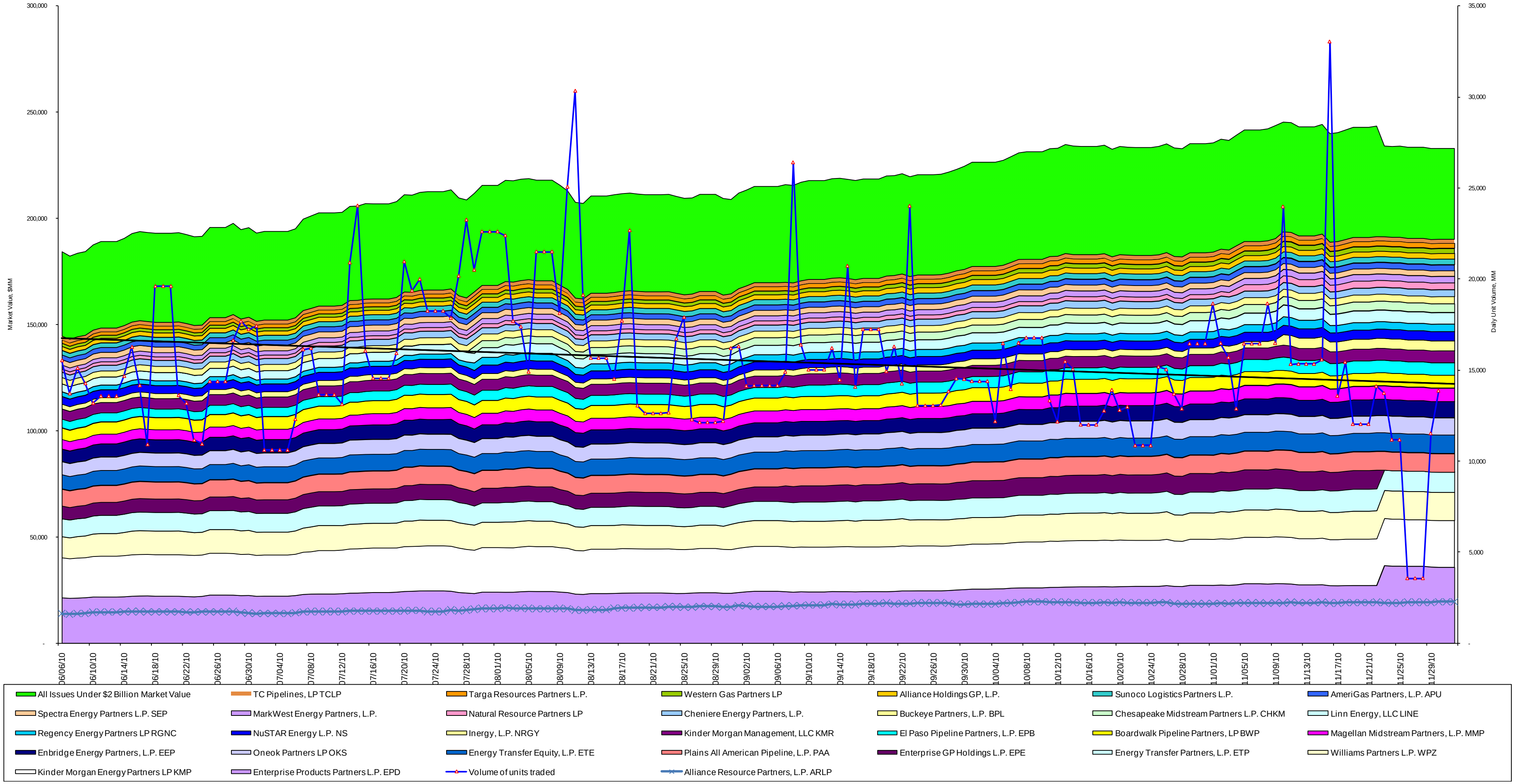
Sources: Factset data and Stifel Nicolaus Research format

Past results should not and cannot be viewed as an indicator of future performance

Equity supply has returned amid MLP sector stabilization.

- Volumes remain volatile with spikes again being driven by public offerings and options expiration rather than by forced liquidations or portfolio deleveraging.

Market Capitalization vs. Volume, 180 Trailing Days



Sources: Market capitalization and share volume Factset; Number of issues Stifel Nicolaus; Presentation and analysis Stifel Nicolaus Research.

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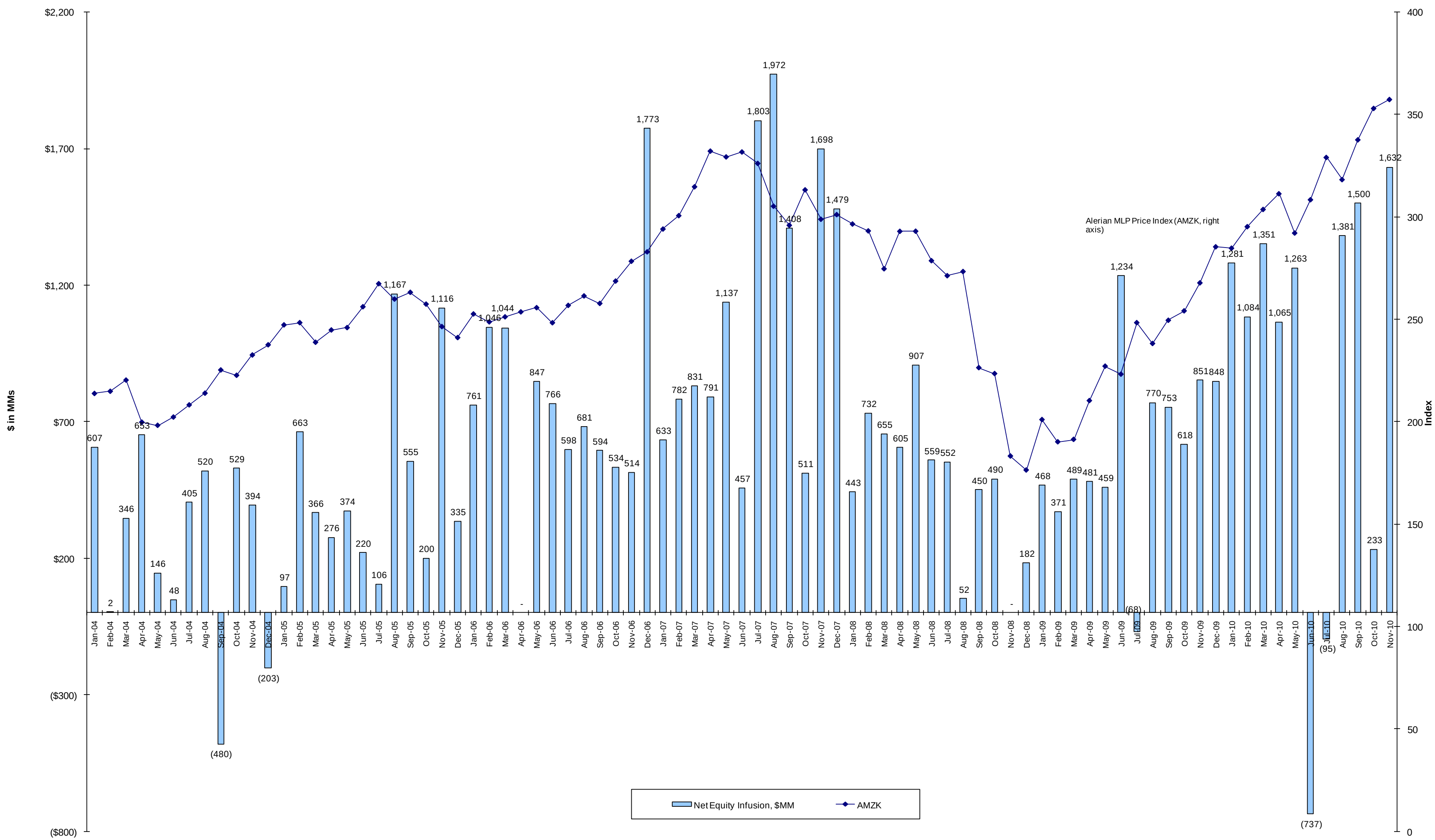
Net Equity Infusion

- We calculate the "net equity infusion" as the sum of initial and secondary MLP equity capital offered during the month, less equity offerings conducted by MLP investment companies. Our intent here is to identify the amount of new equity capital that must be absorbed by retail investors and the limited number of other institutions that buy MLPs.



Source: Factset and Partnership Data, Stifel Nicolaus research estimates

Our Outlook

- ***Credit Line Support -*** While we believe most partnerships maintain sufficient near term liquidity, we note that, on average, most partnership's credit lines are due to expire in 2011, 2012. Should creditors experience stress in commercial lending similar to the pain resulting from residential defaults a cautious stance on lending in general and to the midstream industry specifically could contract liquidity.

- ***Fundamentals produce strong growth in cash flow*** – We expect modest improvement from the mid-single digit average y-o-y growth in distributions seen early in 2010 as a result of ample opportunities, improving capital costs, and cash being harvested from completed growth projects. We anticipate mid single-digit distribution growth, on average, for 2010 with the more commodity price exposed names joining the party in 2011.

- ***IPO market returns*** – New issues were nonexistent in 2009. Initial offerings in 2008 totaled $850 million compared with $2.9 billion in 2007. 2010 has seen the return of MLP IPOs with five offering raising $1.4 billion (CHKM, NKA, OXF, PNG, RNO).

- ***Secondary issues return*** – Public secondary offerings continue to be mostly event driven (acquisitions) to support average 50/50 debt/equity structure though refinancing of credit facilities drawn in 2009 was an early 2010 catalyst. ($11.6 billion YTD FY10, $7.4 billion in 2009, $4.9 billion in 2008, $11.5 billion in 2007.) We highlight that equity financing in the third quarter of 2010 was widespread to both fund internal projects and acquisitions. We believe secondary offerings will continue into 2011 with investor demand for yield supporting current valuations and substantial opportunities for capital deployment at accretive multiples.

- ***Dedicated MLP portfolios -*** Dedicated MLP investment companies continue to support liquidity and drive value for individual investors looking for access to a broad range of partnerships. The funds are now operating well within the most restrictive leverage coverage tests and are focused on returning additional cash to shareholders, in our opinion. A deluge of new product offerings have expanded the investor base as the funds and ETF/ETN products allow investors to avoid the K-1 tax reporting.

- ***General Partner/IDR Elimination*** – Increased acquisition opportunity is pushing partnerships to consider the elimination of incentive distributions (especially for those in the higher tiers) in order to maintain a more competitive cost of capital at the LP. While we believe the incentive structure can be an important tool to entice the GP to drive profitable growth at the LP we maintain that a significant ownership position in LP units often accomplishes the goal while having all owners sit at the same table.

Sources: Partnership filings, Factset data and Stifel Nicolaus Research

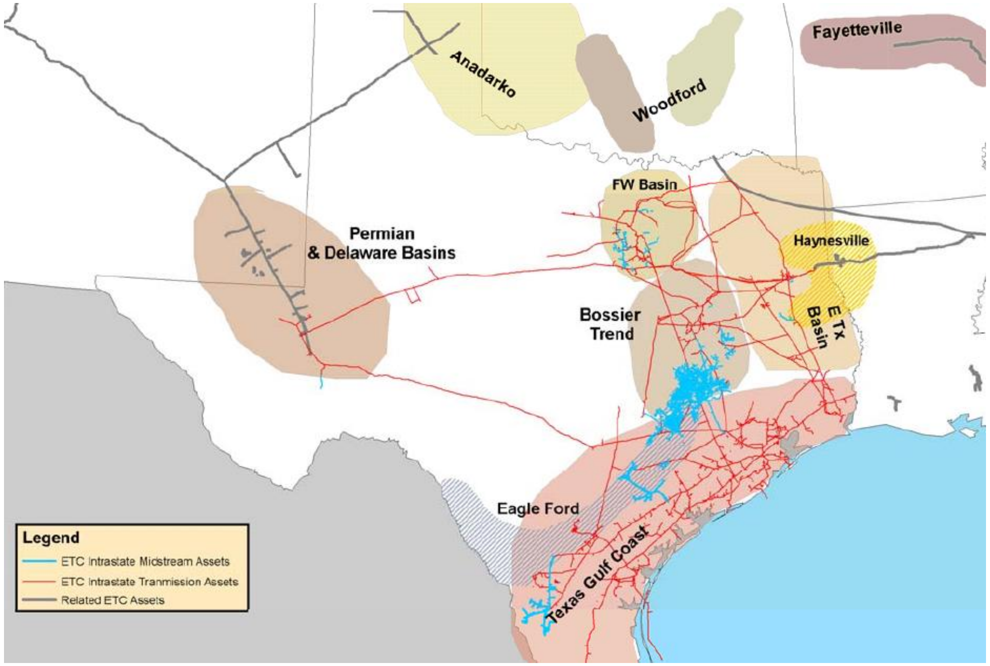
Master Limited Partnerships (MLPs)
4Q10

Coverage Summary

	Symbol	Declared Distribution/ Unit ($)	Yield	Spread over 10-year	Debt/ Cap	Price at 11/30/10	Units or Shares Out, MM	Market Cap, $MM	52-wk. avg. vol. 000s	52-week High	52-week Low
Crude Oil & Refined Product Transport											
Kinder Morgan Energy Partners, L.P. (Hold)	KMP	1.110	6.3%	3.51%	54.5%	$ 70.45	312.7	22,032	705	$ 71.72	$ 56.53
Plains All American Pipeline, L.P. (Buy - $68.00)	PAA	0.950	6.2%	3.38%	45.5%	61.50	141.2	8,687	350	65.20	44.12
Magellan Midstream Partners, L.P. (Hold)	MMP	0.745	5.3%	2.53%	59.4%	56.00	112.5	6,300	330	57.43	39.81
NuStar Energy L.P. (Buy - $66.00)	NS	1.075	6.4%	3.58%	40.6%	67.45	64.6	4,358	227	68.48	51.49
Buckeye Partners, L.P. (Hold)	BPL	0.975	5.7%	2.94%	51.1%	68.07	51.6	3,509	132	71.67	45.00
Sunoco Logistics Partners L.P. (Hold)	SXL	1.170	5.8%	3.01%	64.6%	80.65	33.1	2,667	103	81.80	50.37
TransMontaigne Partners L.P. (Hold)	TLP	0.600	6.8%	4.02%	23.6%	35.24	14.5	509	62	35.52	10.66
Natural Gas & NGL Transport											
Enterprise Products Partners L.P. (Buy - $45.00)	EPD	0.583	5.5%	2.74%	53.8%	42.08	865.8	36,433	1,437	44.32	29.05
Energy Transfer Partners, L.P. (Buy - $55.50)	ETP	0.894	7.1%	4.26%	58.0%	50.67	191.6	9,707	721	52.00	40.06
ONEOK Partners, L.P. (Buy - $85.00)	OKS	1.130	5.7%	2.91%	38.1%	79.21	101.9	8,072	188	81.67	25.57
El Paso Pipeline Partners, L.P. (Hold)	EPB	0.410	5.0%	2.16%	67.2%	33.12	177.1	5,866	497	35.74	23.32
PAA Natural Gas Storage L.P. (Hold)	PNG	0.338	5.7%	2.92%	21.9%	23.63	57.0	1,347	148	26.68	22.25
Niska Gas Storage Partners LLC (Buy - $21.00)	NKA	0.350	7.0%	4.21%	46.4%	19.98	67.6	1,351	270	20.35	17.01
Williams Partners L.P. (Hold)	WPZ	0.688	5.8%	3.05%	58.9%	47.05	280.0	13,174	357	48.95	28.25
Duncan Energy Partners LP (Hold)	DEP	0.453	5.8%	2.98%	21.8%	31.37	57.7	1,811	110	33.39	21.80
Gas Gathering and Processing											
Copano Energy, L.L.C. (Hold)	CPNO	0.575	7.7%	4.89%	44.3%	29.93	65.7	1,968	436	30.60	19.77
MarkWest Energy Partners, L.P. (Buy - $45.00)	MWE	0.640	6.0%	3.25%	48.5%	42.33	71.4	3,024	346	43.33	20.96
Atlas Pipeline Partners, L.P. (Hold)	APL	0.350	5.9%	NM	60.1%	23.79	53.3	1,268	660	25.00	7.34
Western Gas Partners LP (Hold)	WES	0.370	5.0%	2.18%	22.9%	29.78	77.6	2,310	225	31.35	17.84
DCP Midstream Partners, L.P. (Hold)	DPM	0.610	7.0%	4.20%	61.8%	34.90	40.5	1,413	114	36.66	24.90
Targa Resources Partners L.P. (Hold)	NGLS	0.538	7.1%	4.30%	57.9%	30.29	75.5	2,288	452	31.90	19.81
Oil & Gas E&P											
Legacy Reserves LP (Buy - $30.00)	LGCY	0.520	8.0%	5.17%	41.9%	26.11	43.5	1,137	222	27.59	17.04
Propane											
Inergy, L.P. (Hold)	NRGY	0.705	7.2%	4.43%	94.2%	39.02	121.0	4,720	362	43.95	30.35
Shipping											
K-Sea Transportation Partners L.P. (Hold)	KSP	-	0.0%	NM	59.3%	4.59	19.1	88	171	15.36	3.80
Capital Product Partners L.P. (Hold)	CPLP	0.233	11.1%	8.26%	71.1%	8.41	37.1	312	224	10.06	5.31
Martin Midstream Partners L.P. (Hold)	MMLP	0.750	8.2%	5.37%	50.5%	36.73	18.6	683	66	37.63	25.51
MLP Investment Companies											
Tortoise Energy Infrastructure Corp. (Hold)	TYG	0.540	6.0%	3.16%	NM	36.25	26.9	976	102	38.81	26.76
Tortoise Energy Capital Corp. (Hold)	TYY	0.400	5.9%	3.12%	NM	27.06	19.2	519	84	28.40	20.60
Kayne Anderson Energy Dev. Co. (Hold)	KED	0.300	6.6%	3.80%	NM	18.21	10.2	187	60	18.74	13.00
Tortoise Capital Resources Corp. (Hold)	TTO	0.100	5.5%	2.70%	NM	7.28	9.1	66	39	7.93	5.10

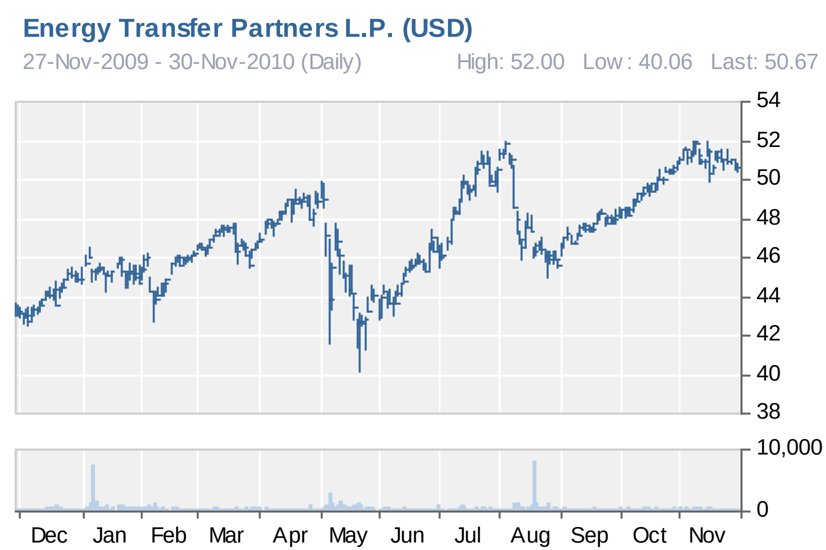
Sources: Factset data and Stifel Nicolaus estimates

Best Idea: ETP: Strong Liquidity, Pipeline Development Improves Risk Profile; Texas Basis a Key Catalyst



- Energy Transfer Partners, L.P. (ETP) is a leading transporter of natural gas, moving more than 15 billion cubic feet (Bcf) per day through more than 17,500 miles of pipeline. It operates FERC regulated (interstate) and Texas intrastate pipeline systems as well as natural gas storage facilities. Through its midstream segment, the partnership gathers and processes natural gas in Colorado, Utah, and Texas. The partnership also owns the third largest retail propane distribution network in the U.S. serving more than one million customers.

ETP					
Price	$	50.67	Current Yield		7.1%
Debt/Capital		58.0%	DPU, most recent qtr	$	0.894
Market Cap	$	9,707.31	Rating; Target Price		(Buy - $55.50)



- The partnership is positioned to provide additional pipeline takeaway capacity from emerging shale gas production in both the Fayetteville Shale via the Fayetteville Express Pipeline and the Haynesville Shale through its proposed Tiger Pipeline, both expected to bolster fee-based cash flow. The Fayetteville and Tiger pipelines have completed the construction phase and are currently entering service. We revenues from the pipelines to ramp higher through the year as contracts become effective. We see the start up supporting distribution growth in 2011.
- We believe the ongoing commitment to completing shale oriented growth projects will support cash flow growth into 2011 and beyond. Energy Transfer maintains near-term liquidity of approximately $1.95 billion, allowing the partnership to finance substantial construction costs ahead of securing permanent capital.

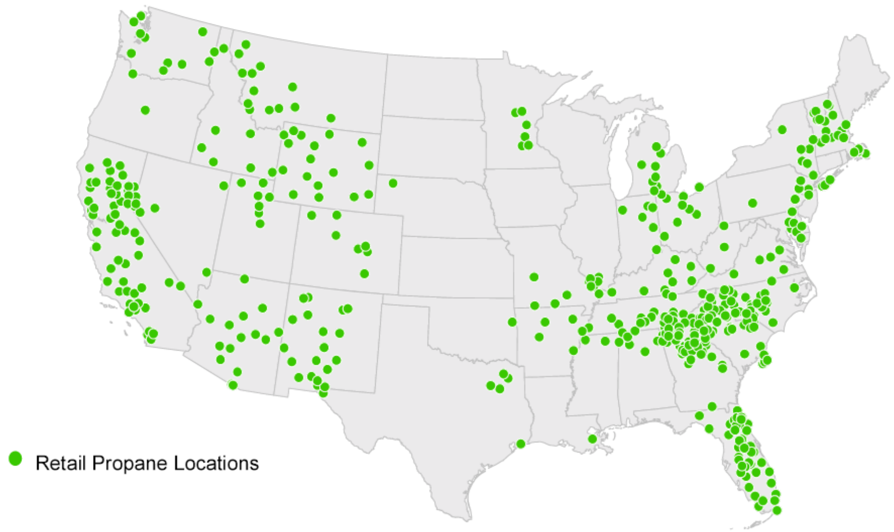
Sources for all exhibits: Partnership filings; Factset; Stifel Nicolaus estimates

Best Idea: ETP: Strong Liquidity, Pipeline Development Improves Risk Profile; Texas Basis a Key Catalyst

- Energy Transfer also operates one of the three largest retail propane distribution businesses in the U.S. The operations have a national footprint that reduces the weather risk related to any one geographic area. Consolidation will continue to be the growth driver for this segment, in our opinion. Conversations with other propane partnerships indicate acquisition opportunities are expanding as sellers' expectations are becoming more reasonable. As such we believe ETP will continue to grow through acquisition in 2011.

- We believe propane margins will remain consistent going into 2011 after a strong 2010.

- ETP's largest segment, intrastate transportation and storage, saw volumes increase not only year-over-year but sequentially for the third straight quarter. Our expectations were for this segment to improve going into the second half of 2010 and that scenario seems to be developing. For 2011, we are forecasting further improvement with volumes increasing 9.2% and operating profit increasing 8.2%.

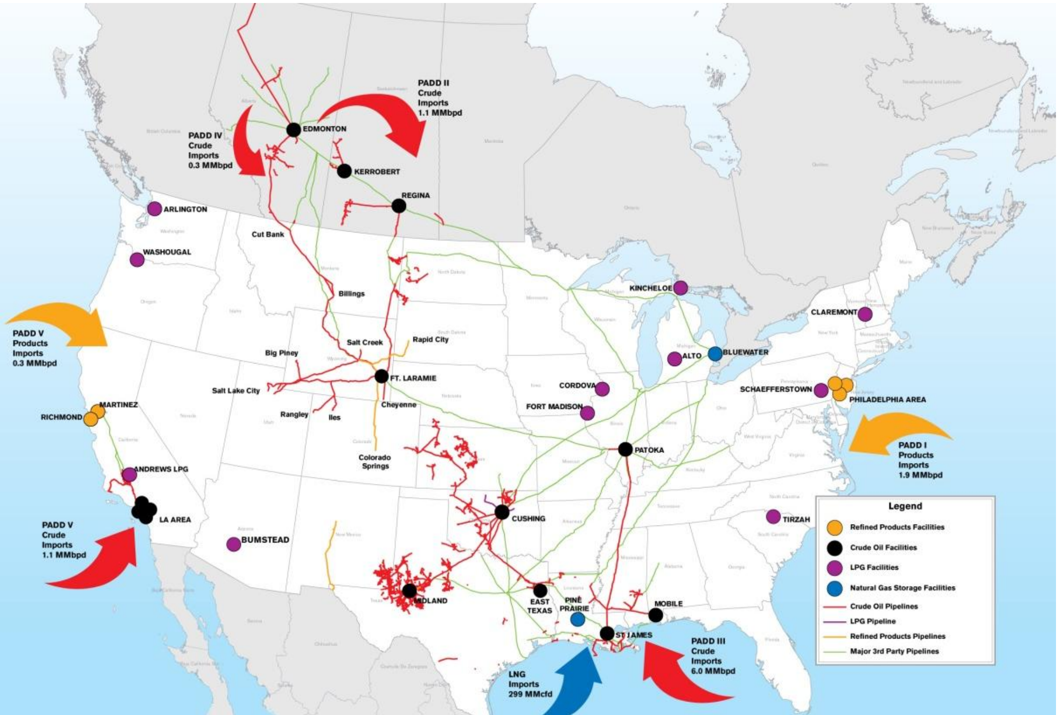


Price Target

▪We value the units using the yield capitalization method. By applying a 6.75% yield to our annualized 4Q11 DPU estimate of $3.755, we arrive at our rounded target price of $55.50.

Sources: Partnership filings; Stifel Nicolaus estimates

PAA: Strong crude oil storage position, pipeline development support mid single-digit growth in DCF

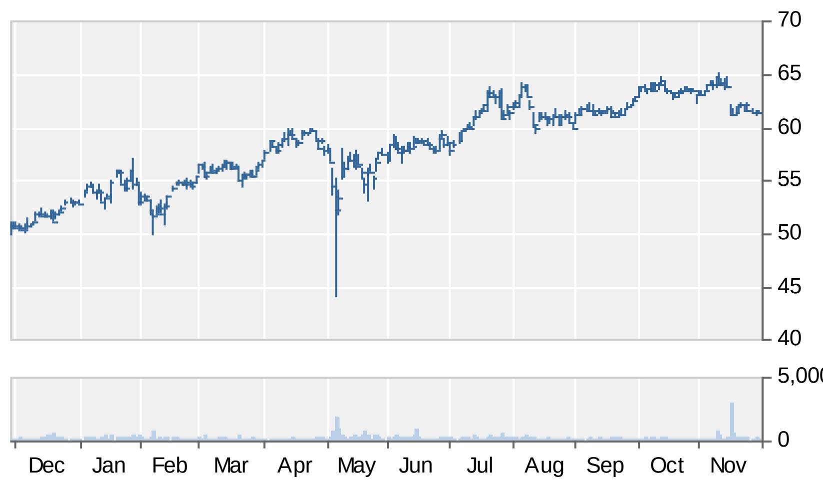


- Plains All American Pipeline, L.P. is a Delaware limited partnership formed in 1998. The company is engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas-related products. Plains All American Pipeline, L.P. manages its operations through three operating segments: Transportation, Facilities and Marketing. It has a 50% equity ownership in PAA/Vulcan Gas Storage, LLC, and it is also involved in the development and operation of natural gas storage facilities. We note that PAA is **currently in the 50% split tier** with the General Partner.

PAA				
Price	$ 61.50	Current Yield		6.2%
Debt/Capital	45.5%	DPU, most recent qtr	$	0.950
Market Cap	$ 8,686.81	Rating; Target Price	(Buy - $68.00)	

Plains All American Pipeline L.P. (USD)

27-Nov-2009 - 30-Nov-2010 (Daily) High: 65.20 Low : 44.12 Last: 61.50



- Management noted growth opportunities continue to be strong. For 2010, the Partnership is forecasting $380 million growing to $500 million in 2011, an increase of 45%. Equally important, in our opinion, PAA can achieve the midpoint of its 2011 adjusted EBITDA guidance of $1.145 billion, an increase of 7.4% from our forecasted 2010 level, with only the internal growth prospects. Accretive acquisitions would provide additional growth.

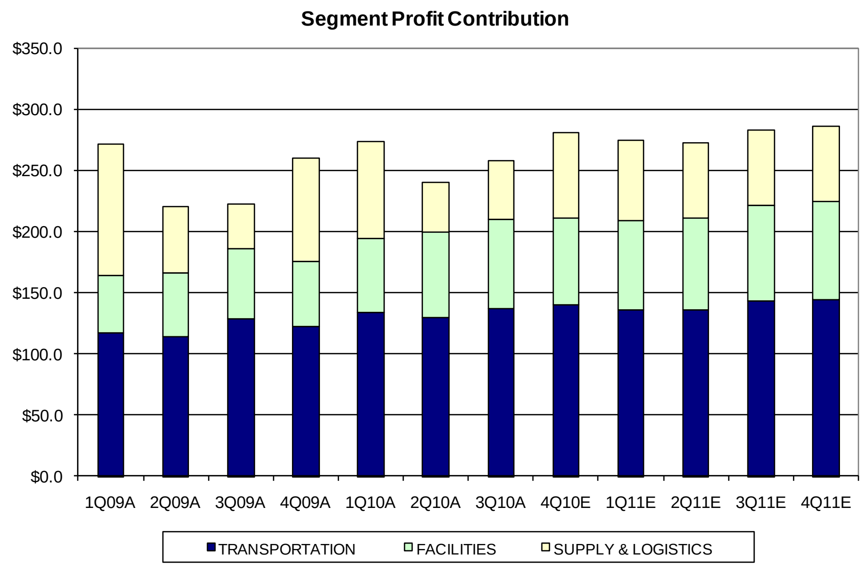
Sources for all exhibits: Partnership filings; Factset; Stifel Nicolaus estimates

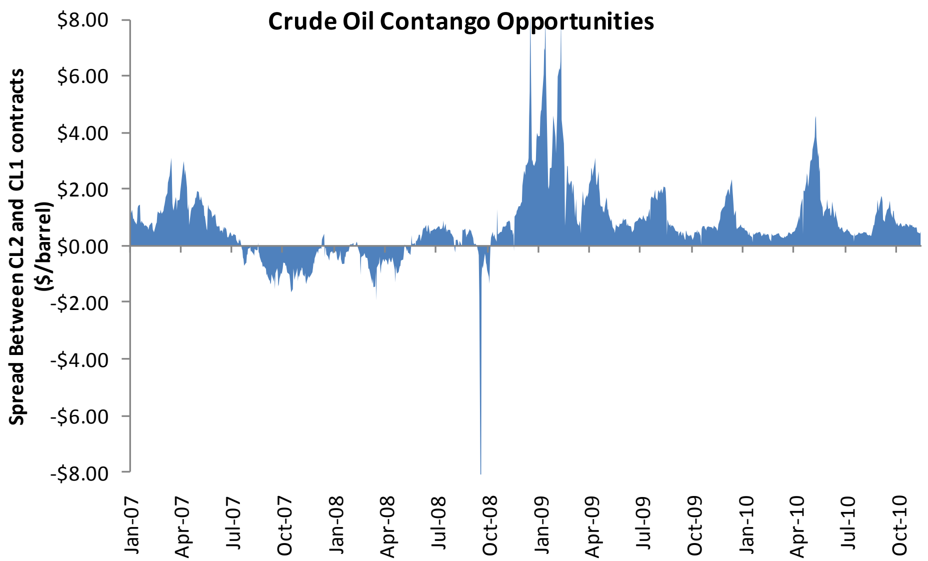
Past results should not and cannot be viewed as an indicator of future performance.

STIFEL NICOLAUS

PAA: Strong crude oil storage position, pipeline development support mid single-digit growth in DCF

- Subsequent to the quarter end the partnership announced a proposal to complete a multi phase Bakken pipeline and storage expansion to deliver crude north to third party pipeline that ultimately provide an outlet to Midwest refineries and the Cushing storage hub. Initial cost estimates for the project are in the range of $160 million to $200 million.
- Further, the partnership has entered into an agreement with Nexen Holdings to purchase crude oil gathering and transportation assets that primarily service Bakken area producers for approximately $210 million, including approximately $170 million for the physical assets and approximately $40 million for approximately 400,000 barrels of inventory and working capital. The transaction is expected to close by year-end.
- We continue to see opportunities to capture contango profits in its crude oil gathering and marketing business, supporting that segment’s contribution in the hear term.





Price Target

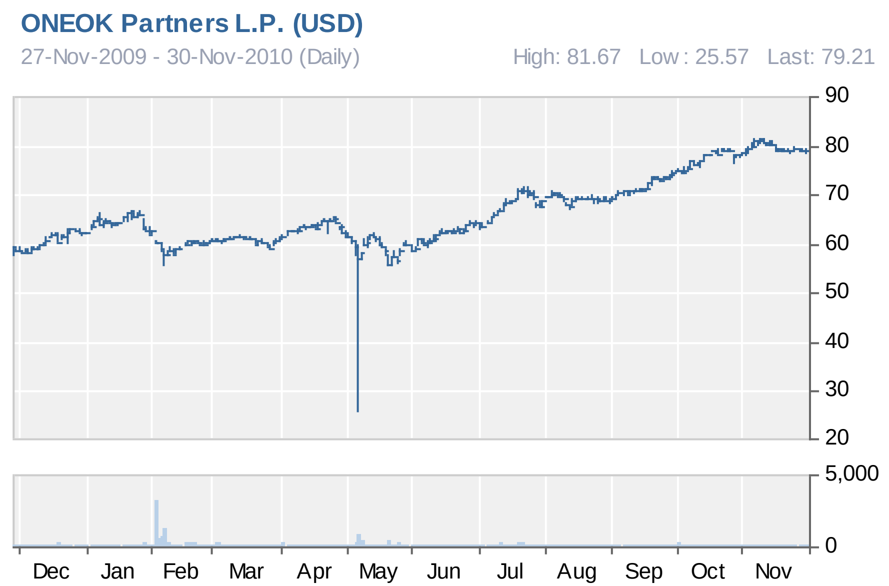
- We value PAA using a targeted yield valuation off our annualized 4Q11 DPU estimate of $4.02 and the current 5.9% yield and arrive at our rounded target price of $68.00.

Sources: Partnership filings; Stifel Nicolaus Estimates

OKS: Vertically Integrated NGL Logistics Provider; Fuel Switching Supporting NGL Demand

- ONEOK Partners, L.P. is one of the largest publicly traded MLPs. The partnership operates in the gathering, processing, storage and transportation of natural gas in the U.S. and owns one of the nation's premier natural gas liquids (NGL) systems, connecting much of the natural gas and NGL supply in the mid-continent with key market centers.

OKS					
Price	$	79.21	Current Yield		5.7%
Debt/Capital		38.1%	DPU, most recent qtr	$	1.130
Market Cap	$	8,072.13	Rating; Target Price		(Buy - $85.00)



- As Naptha derived chemical feedstock prices rise relative to that of feedstock derived from NGL, ONEOK stands to benefit as the petrochemical industry is increasingly switching to the less costly inputs. The partnership is well positioned as a supplier of choice given its connection to more than 90% of the Mid-continent region's processing plants, in our opinion.

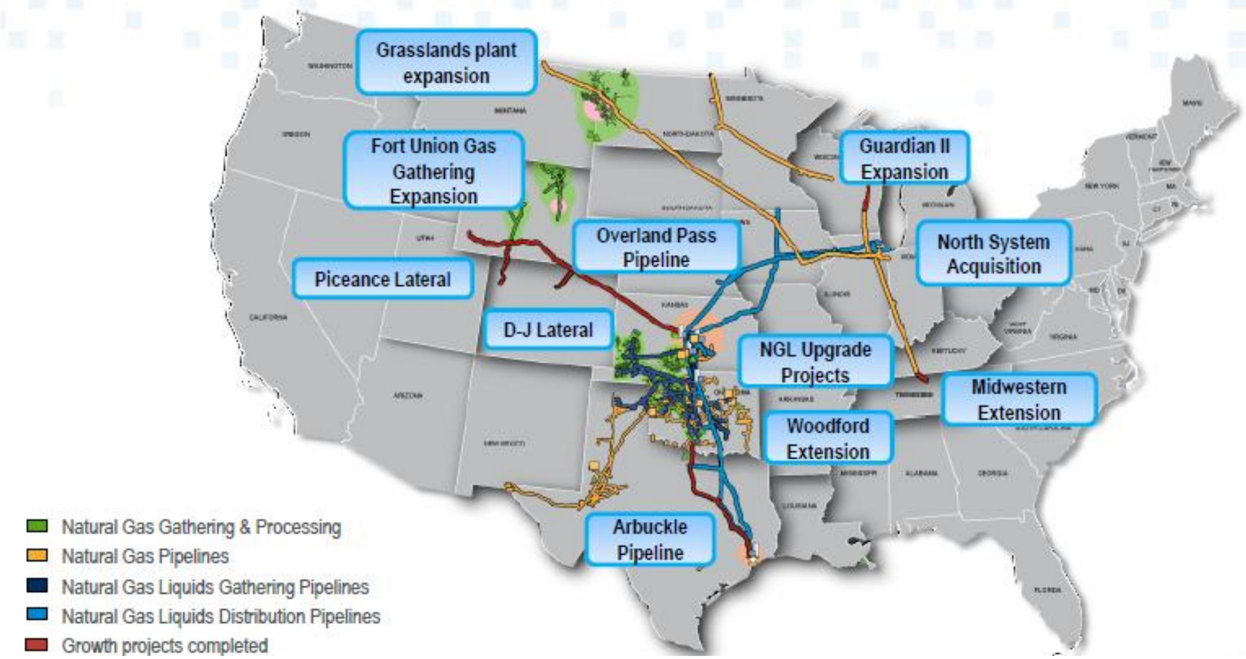
Sources for all exhibits: Partnership filings; Factset; Stifel Nicolaus estimates

Past results should not and cannot be viewed as an indicator of future performance.

OKS: Vertically Integrated NGL Logistics Provider; Fuel Switching Supporting NGL Demand

▪Management offered more perspective on its previous comments regarding a transformative transaction at the ONEOK enterprise indicating a potential not only for assets to be purchased at the parent and dropped into the partnership but a possible transaction at the partnership directly.

▪In the quarter the partnership announced plans to construct $1.3 billion to $1.6 billion of natural gas and NGL infrastructure assets between now and 2013. We believe demand for NGLs as a feedstock for the petrochemical industry remains strong and the ongoing theme of more competitively priced NGL feedstock relative to crude oil derived feedstock is expected to continue. We believe the assets likely produce high-teens investment returns.



Price Target Commentary

- We value OKS using a targeted yield valuation off our 3Q11 annualized DPU estimate of $4.68. We apply a 5.5% targeted yield to obtain a rounded target price, in our opinion, of $85.00.

Sources: Partnership filings; Stifel Nicolaus Estimates

Risks to Target Prices

ETP: Primary risks include potential rising interest rates, which tends to reduce demand for yield-bearing securities such as MLPs, tax code changes, a significant decline in natural gas demand or production in the United States and restriction in access capital via debt and equity markets to fund portions of acquisition and growth projects.

PAA: Primary risks include potential rising interest rates, which tends to reduce demand for yield-bearing securities such as MLPs, lower-than-expected distribution growth, tax code changes, significant and unanticipated declines in energy demand in the United States, and restriction in access to capital via debt and equity markets to fund growth.

OKS: Primary risks include potential rising interest rates, which tend to reduce demand for yield-bearing securities such as MLPs, tax code changes, a significant decline in natural gas and/or NGL demand in the United States, and restriction in accessing capital via debt and equity markets to fund refinancing, acquisitions, and growth projects.

Units of master limited partnerships (MLPs) such as Energy Transfer Partners are not ideal for tax exempt accounts such as IRAs due to the creation of unrelated business taxable income under certain circumstances. Please consult a tax advisor prior to purchase.

Master Limited Partnerships (MLPs)
Structure Overview Topics

Six Key MLP Risks

Issue	Attributes
Liquidity	▪ **The Schedule K-1 precludes most institutional investors from effectively investing in MLPs. This creates a less liquid buy-side. Such illiquidity can enhance the volatility in the sector. Relatively lower average trading volumes can decrease an investor's ability to move in or out of a position in size or at prevailing prices.**
Underwriting	▪ Because MLPs pay out substantially all of their cash flows to investors, they frequently return to the capital markets for new capital to fund their growth. Coupled with the illiquidity cited above, this underwriting can create relatively high levels of volatility when new equity comes to market and the need for equity financing can limit growth. We note the lack of equity issuance recently and the withdrawal of announced issues.
Interest Rates	▪ As yield-bearing products, MLPs exhibit sensitivity to risk free interest rates as exemplified by the 10-year U.S. Treasury bond. When risk-free yields rise, MLP yields rise as well, eroding equity value. The inverse should hold as well, with lower risk free interest rates driving down MLP yields and improving MLP equity prices.
Weather	▪ Weather can impact MLPs in two ways. First, energy infrastructure assets can suffer direct damage or down time from inclement weather, particularly hurricanes originating in the Atlantic Basin that plow through the Gulf of Mexico or make landfall on the Eastern Seaboard. Second, heating and cooling degree days dictate propane, natural gas and heating oil usage, with hotter summers driving increased power generation for air conditioning and colder winters driving increased natural gas and propane use for heating.
Commodity Prices	▪ For those MLPs such as E&Ps, gas gatherers/processors and coal miners, commodity prices drive revenue. In contrast, fee-for-transport MLPs can experience lower throughput volumes if prices spike, which has the effect of reducing demand and consumption. Secondly, from a valuation standpoint, we have found that MLPs tend to trade more in line with than in opposition to the broader energy complex.
Tax Policy	▪ Were the tax code to eliminate the structural attributes that allow MLPs to forego corporate income tax, MLP equity values would suffer. In contrast, if the tax rate on qualified dividends were to increase, MLPs would become more attractive on a relative basis to other dividend-paying securities.

Source: Stifel Nicolaus

Key MLP Metrics

- **Tax Shield** – MLPs are structured as partnerships in order to avoid taxation at what would otherwise be the corporate level. This allows for a pass-through of depreciation expense to investors, resulting in a 50%–100% tax shield in the first year of ownership. **This factor is driven primarily by the quantity of depreciation or depletion pass-through**. The cash flow stream to the investor consists of a return-of-capital portion (the tax shield) and ordinary income. Investors pay ordinary income tax on the ordinary income, and the return of capital reduces an investor's cost basis, deferring the tax expense (recapture of depreciation) until the time of the units' sale.

- **Distributable Cash Flow (DCF, Non-GAAP)** – As partnerships, MLPs focus on increasing cash flow to investors, at an average range of 3.5%-5%. Unlike C-Corps that pay out a certain portion of earnings, or who focus on earnings, MLPs seek to maximize the tax-shielded distribution for investors by paying out a portion of DCF:

  Net Income
  + Depreciation, Amortization & Other Non-cash expenses
  - Maintenance Capital Expenditures
  = Distributable Cash Flow (DCF)

  - Note that investors must discriminate between capital for expansion and maintenance capital expenditures in deriving DCF, and that MLPs each calculate distributable cash flow slightly differently.

- **DCF Coverage Ratio –** Distributions to investors are paid out of distributable cash flow. Thus, an important metric in the MLP space is the distribution coverage ratio:

  Distributable Cash Flow Per Unit
  / Distributions Per Unit (DPS)
  = DCF Coverage Ratio

- **DPU not EPU** – Given the impact of depreciation expense on DCF, which in turn determines the cash flow to investors, MLP owners focus on distributable cash flow and distributions per unit (DPU) rather than earnings per unit (EPU).

- **Other Focus Metrics –** The risk metrics we use are common to other asset classes, including interest coverage ratios and debt-to-total capitalization. In regard to acquisitions and capital expansions, MLPs tend to focus on multiples of DCF or multiples of EBITDA. Note that **many MLPs cannot make acquisitions that are not accretive to their distribution**, as partnership agreements specifically restrict them to accretive acquisitions, insofar as that can be determined.

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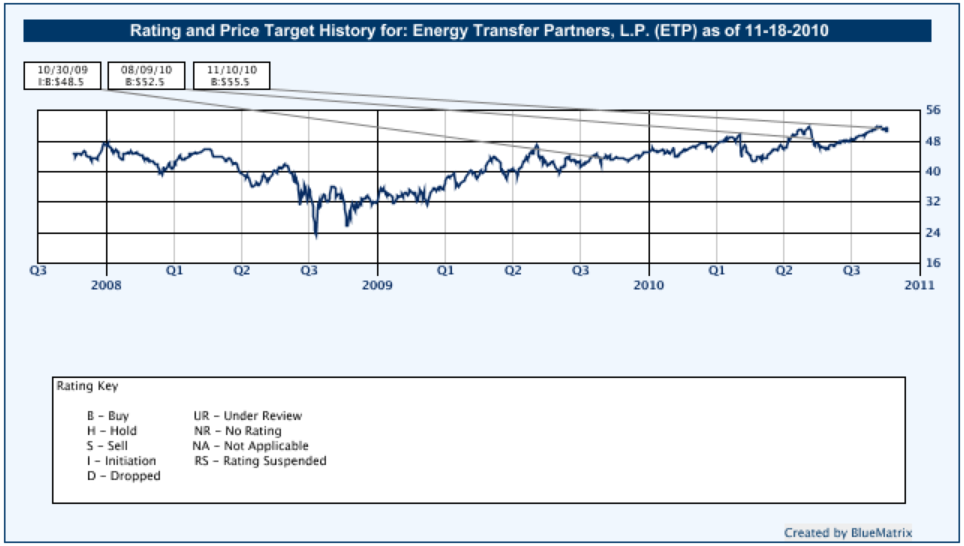
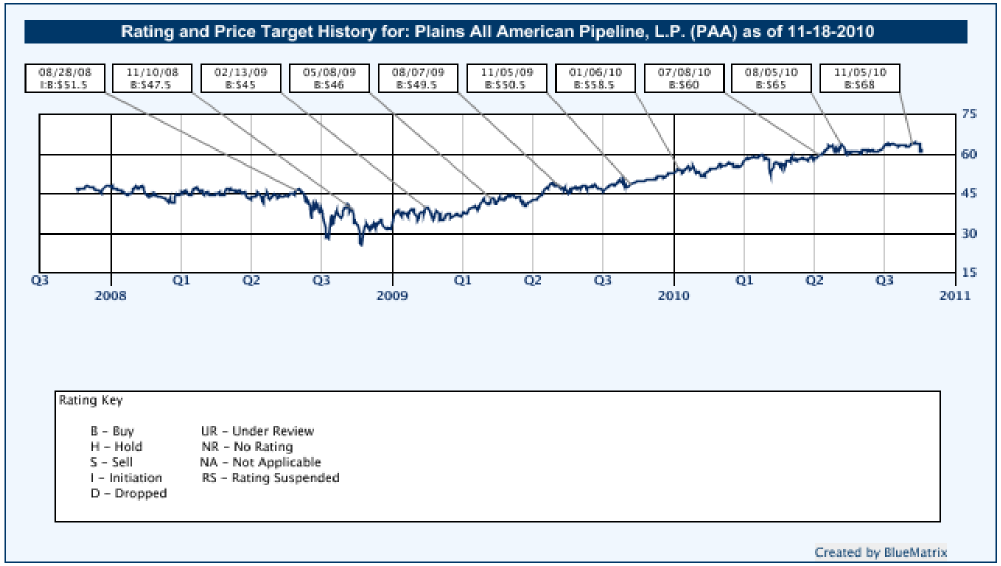
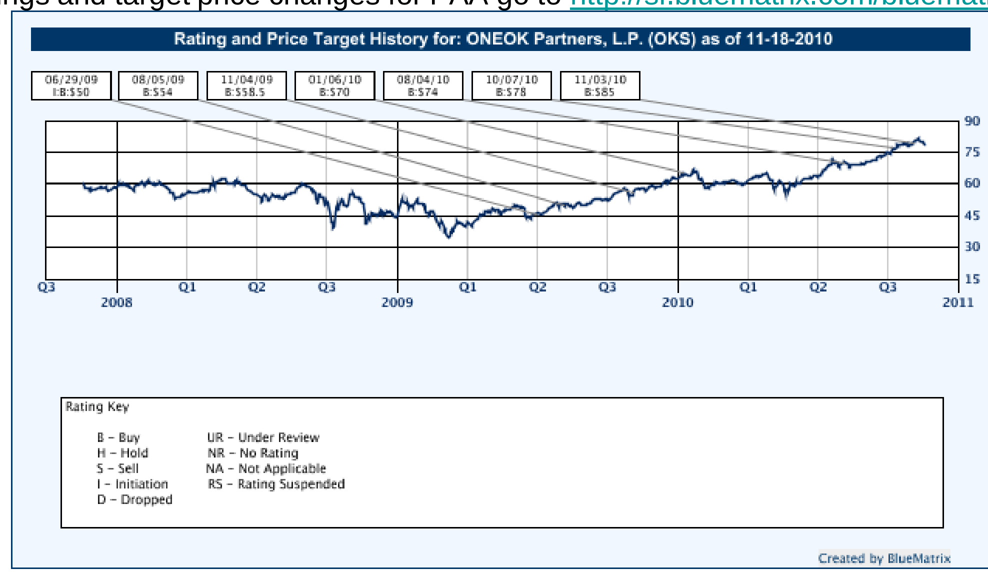


Source: Blue Matrix, Stifel Nicolaus

For a price chart with our ratings and target price changes for ETP go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=ETP



Source: Blue Matrix, Stifel Nicolaus
For a price chart with our ratings and target price changes for PAA go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=PAA



Source: Blue Matrix, Stifel Nicolaus
For a price chart with our ratings and target price changes for OKS go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=OKS

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BUY – For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500 and Canadian securities as compared to the S&P/TSX Composite Index, respectively.

HOLD – For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. A Hold rating is also used for yield-sensitive securities where we believe it is unlikely that a dividend reduction will occur, but that any potential increase in the share price is limited.

SELL – For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value.

Of the securities we rate, 50% are rated Buy, 48% are rated Hold, and 2% are rated Sell.

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