

# [***-Fitch: Strong Sponsors Benefit MLPs in Challenging Environment***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HC3-2121-F0K1-N0PM-00000-00&context=1516831)

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**Body**

Master limited partnerships (MLPs) and midstream issuers with supportive sponsors will be better able to execute and move forward with growth strategies in the current capital constrained ***environment***, according to Fitch Ratings.

Funding for growth has become expensive as the cost of capital is high and rising for MLPs. We believe sponsor affiliation and support will be a key differentiating factor for issuers. Growing issuers or issuers of modest standalone size generally can gain the benefits of scale through affiliation with a larger parent company or sponsor.

Sponsor support tends to come in different forms and may include favorable asset dropdowns, cheap financing, financial guarantees, or operating assistance, all of which help enhance the credit profile of an MLP affiliate. More modest indirect sponsor benefits-or 'halo effects'-include shared management philosophies or a willingness of the general partnership sponsor to forfeit distributions from its MLP during financial distress or when making acquisitions helping with accretion and cash flow at the MLP level.

On Nov. 10, Marathon Petroleum Corp. (MPC) announced it would increase its cash contribution to help sweeten the deal between its master limited partnership, MPLX, LP and MarkWest Energy Partners, LP (MarkWest). MPC will now contribute $ 1.075 billion to MLPX for its acquisition of MarkWest, a $ 400 million increase from its prior offer in July. This should help offset some of the lost cash flows MarkWest unitholders were expected to receive under the original terms of the deal and hopefully help facilitate the deal closing.

Fitch does not believe the increased contribution to have any material impact on MPC's ratings. However, the increased contribution is illustrative of the operational and financial uplift that a supportive sponsor can provide to its underlying partnership. If MPLX were a standalone MLP without a sponsor, its ability to fund the cash consideration could create a financial strain on its balance sheet at a time when capital market access is constrained. Given MPC's support, MLPX has a higher offer to help get the acquisition of MarkWest completed. MPLX's merger with MarkWest will increase its size, scale, and asset diversity that benefits MPLX's credit profile.

These examples of sponsor support have been prevalent throughout the midstream space as of late. Energy Transfer Equity, LP (ETE) recently reiterated its commitment to partnership with Energy Transfer Partners, LP (ETP). As ETE CEO and founder Kelcy Warren said: 'We're going to do whatever is necessary. If ETP needs help in the way of IDR [incentive distribution rights] subsidies, IDR givebacks, things of that nature to make projects more accretive and improve ETP's financial health, you can guarantee ETE will do that.' DCP Midstream, LLC's credit profile greatly benefitted from a $ 3.0 billion equity contribution in the form of cash and assets from its sponsors, Phillips 66 and Spectra Energy Corp.

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