MEMORANDUM

TO: McIntire Investment Institute

FROM: Pete Peterson, McIntire School of Commerce '10

DATE: December 1, 2008

SUBJECT: MarkWest Energy Partners, L.P.

MarkWest Energy Partners, L.P. (NYSE:MWE)
Recommendation – LONG
December 1, 2008

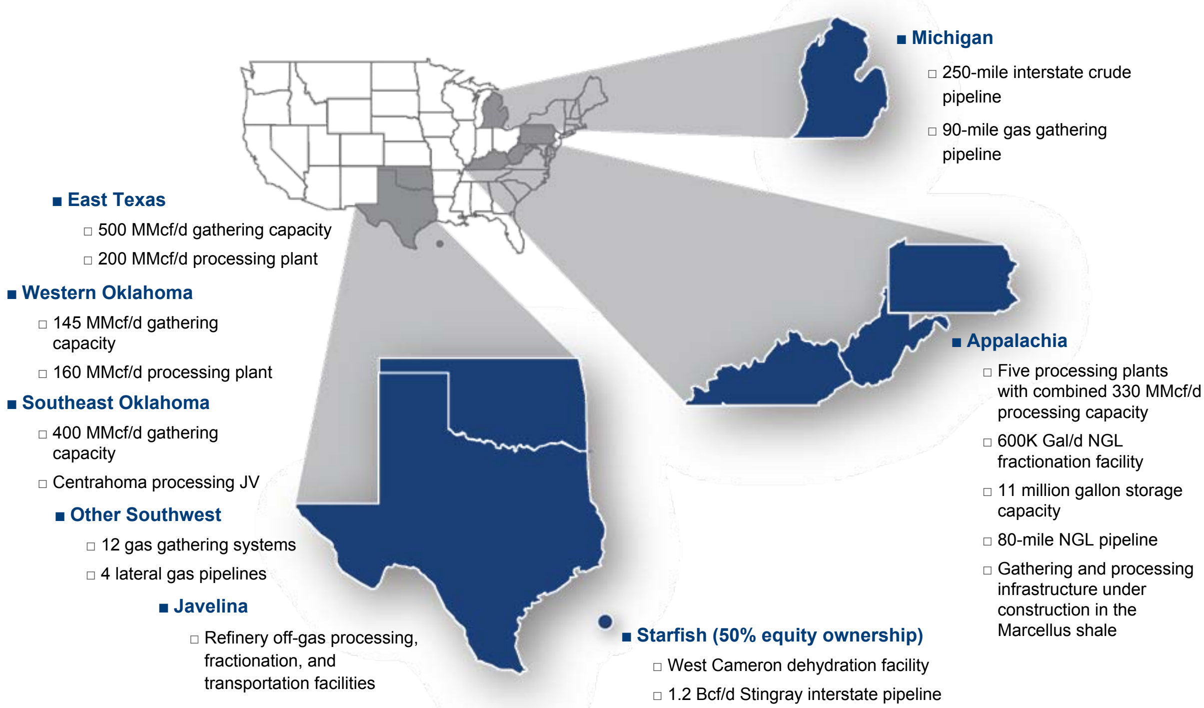
Price (as of 11/30)	$12.77
Market Capitalization	723.29M
52-Week Range	$8.77-$38.50
Dividend	$0.64
Yield	20.05%
P/E (trailing)	15.16
P/E (forward)	12.54
PEG Ratio	1.74
Short % of Float	0.30%

	9 Months ended September 30,		
	2006	2007	2008
Revenues	$492,310	$590,342	$866,760
Growth		19.9%	46.8%

	9 Months ended September 30,		
	2006	2007	2008
OCF	$120,508	$96,535	$216,132
Growth		(19.9%)	123.9%

About MarkWest

MarkWest Energy Partners, L.P. is a Denver, CO-based master limited partnership. The firm is involved in the gathering, processing and transportation of natural gas, the transportation, fractionation and storage of natural gas liquids (NGLs), and the gathering and transportation of crude oil. The firm holds large gathering, processing, and pipeline assets in Texas and Oklahoma, and a 50% equity stake in an offshore processing facility ("Starfish"). However, MarkWest has diversified geographically, beginning with its crude oil pipeline in Michigan and more recently, with its move into the Marcellus Shale in Appalachia. The map below illustrates the firm's main assets:



MEMORANDUM

About master limited partnerships (MLPs)
As mentioned earlier, MarkWest is a master limited partnership. A master limited partnership is essentially a limited partnership that can be publicly traded, combining the tax advantages of a limited partnership with the liquidity of a stock. In order to qualify for MLP status, a firm must earn 90% of its income through activities or interest relating to natural resources, commodities, or real estate. Consequently, the vast majority of MLPs are involved in oil and gas extraction and transportation, though some private equity firms, like Blackstone Group and Fortress Investment Group, have been granted MLP status.

Because MLPs function as a partnership, they are not taxed at the corporate level. This allows the firms to pass on a hefty portion of their distributable cash flow to investors in the form of dividends. In addition, investors are allowed to record a portion of the firm's depreciation on their own tax forms. This makes MLPs attractive investment vehicles, especially for individual investors.

MarkWest is highly undervalued due to a variety of factors
The chart below tracks YTD performance of MarkWest vs. the S&P 500. The firm's stock consistently outperformed the market until the month of September, when a variety of factors drove its stock down. None of these factors has anything to do with the health of MarkWest as a company. Still, its stock is priced like it's going out of business, which is certainly not the case.

I believe several of the factors in the stock's September freefall have nothing to do with the firm's health:

> *Hedge fund sell-offs* – The September collapse of Lehman Brothers and the liquidity crunch that followed had a significant effect on MarkWest's stock price. Banks and hedge funds bought stock in a lot of MLPs over the past several years, due to their stability and high dividend payouts. Funds could borrow money cheap, and lock in steady dividend yields of 8% or higher.

Unfortunately, with the collapse of Lehman Brothers, LIBOR rates temporarily skyrocketed and cheap credit became very hard to come by. As a result, banks and hedge funds became unable to borrow money at low rates, forcing them to liquidate a lot of their most attractive positions. MLPs were often the first to go, driving the Alerian MLP Select Index down to $21.12 from $31.64 at the beginning of September.

Commodity price freefall – The chart below tracks MWE vs. the Ultra Oil & Gas ProShares ETF:

The chart shows how MWE's stock moves in sync with oil and natural gas prices. With banks and hedge funds having liquidity scares, they were also forced to sell marketable commodities like oil and natural gas. As a result natural gas prices have fallen from their July highs of over $15 to current prices of around $6. In the past, when oil and gas prices hit low levels, retailers and storage operators would recognize the value and stock up. Their purchases would slowly push the price back up. However, in the current credit environment, these retailers cannot raise the capital to buy large quantities, and commodity prices have stalled.

However, this should not affect MarkWest's stock price as much as it has. While lower natural gas prices may MarkWest's gas processing services less attractive, its gathering and pipeline businesses should still be going strong. Additionally, the firm hedges 65% of its commodity exposure, so it is not as susceptible to drops in oil and gas prices as some of its competitors.

Finally, even if investors are concerned about falling commodity prices, virtually all of my VAR contacts said that they believe oil and natural gas prices will increase substantially over the next 5-10 years. These low commodity levels are simply not sustainable, though their sudden drops have done a lot of damage to energy stocks like MWE.

Concerns over Hurricane Ike damage – MWE stock took a 27.5% dive in the month of September, in part because of worries over Ike's effect on the firm's Gulf Coast operations.

> Damage from the storm caused a full shutdown of the "Starfish" joint venture, in which MarkWest owns a 50% stake. However, Starfish has already returned to partial operations, and the total impact in the 3rd quarter was only $3 million. MarkWest foresees another $8 million in losses from the storm, probably in the 4th quarter of 2008, but expects some recovery from its insurance providers in 2009.
>
> *Concerns over second quarter loss* – MWE stock has been hurt by its poor earnings reports earlier this year. The firm posted a net loss of $158.6 million for the six months ended June 30, 2008. However, a closer inspection of MarkWest's 10-Qs reveals that the net loss was caused by a $245.1 million "unrealized loss on derivative instruments" in the first half of 2008, clearly not a true indicator of MarkWest's long-term profitability.

Insiders have recognized the value of MWE, and since November 14, MarkWest's directors have purchased over 50,000 shares.

MarkWest is involved in exciting oil and natural gas plays

The market for natural gas and natural gas liquids (NGLs) in the United States is in a very promising position. With President-Elect Obama aiming to wean the country off of foreign oil, natural gas should play a bigger role than ever before. The shortcomings of alternative energy sources like solar and wind energy, the decline in popularity of coal and ethanol, and the "not in my backyard" stigma against nuclear power plants all point to increased interest in clean-burning natural gas. Not only is there high growth potential, but natural gas is also a fairly recession-proof commodity. People need natural gas to heat their homes, especially with winter beginning, and are not likely to stop using it.

Luckily, natural gas extraction and processing technology has increased by leaps and bounds in the last several years. The rise in "horizontal drilling", led by Chesapeake Energy, has made it possible to extract huge quantities of natural gas. This, combined with the increased popularity of shale as an unconventional source of gas, has made it an exciting time to be involved in the extraction, processing and transportation of natural gas and NGLs.

The media has focused much of its attention on plays in the Barnett Shale (Northesat Texas), the Haynesville Shale (Northwest Louisiana and East Texas), and the Fayetteville Shale (Arkansas). However, according to a July 2008 Deutsche Bank Research report, the potential of these shale plays pales in comparison to the Marcellus Shale. The report estimates the Marcellus' internal rate of return to be 86%, as opposed to 64%, 69%, 47%, respectively, for the others.

Geoscientists from Penn State and SUNY have estimated that the Marcellus Shale could contain anywhere from 168 to 516 trillion cubic feet of natural gas, and that at least 50 trillion cubic feet can be extracted. The U.S. currently produces roughly 30 trillion cubic feet of natural gas a year, so the Marcellus is considered a "Super Giant gas field". The sheer size of this discovery, coupled with its proximity to Northeastern cities, makes for a huge opportunity.

With its "premier midstream provider" status in the Marcellus Shale, MarkWest is in a great position to capitalize on this opportunity. Its partner in the Shale, Range Resources, has already begun to drill 51 vertical wells and 29 horizontal wells, figures that dwarf those of its rivals Chesapeake, CNX, and Atlas Resources. MarkWest will both process and transport Range's gas via its multiple processing plants and NGL pipelines, providing steady revenues for years to come.

The Woodford Shale in Oklahoma is another promising area for natural gas extraction. From late 2004 to early 2008, the number of gas wells in the Woodford increased from 24 to over 750. MarkWest has constructed a 300 million cubic ft./day (MMcf/d) gathering system in the region, and will expand its gathering assets over the next several years. The firm has also acquired processing plants in the region, and is currently constructing the 600 MMcf/d Arkoma Connector Pipeline to connect its gathering system to the larger Midcontinent Express Pipeline.

MarkWest should continue to expand in these promising areas, while maintaining its position in Texas and the Gulf Coast. In the most recent EnergyPoint Research, Inc. customer satisfaction survey, MarkWest was named #1 in Natural Gas Midstream Services Customer Satisfaction, over some big names like Chevron, BP, Citgo, ConocoPhillips, Valero, and Chesapeake Energy. Its strong relationships with customers should lead to more organic growth in the future.

Strong balance sheet will fund growth regardless of market turmoil

While its debt-to-capital ratio is .48, the firm has no long-term debt maturing until 2014. And while its $987.8 million in long-term debt seems excessive, the ratio of Debt to EBITDA is a relatively healthy 3.3, indicating that the firm will be able to pay its obligations. In addition, it does not have any short-term obligations on this long-term debt. The firm has $105 million in cash on hand, and an interest coverage ratio of 12.29, so it will be more than able to make its interest payments in the future. Given the massive capital expenditures required to succeed in the industry, it is necessary to take on some debt, and MarkWest has done it in a very prudent and conservative way.

($ in millions)	As of December 31, 2007	As of September 30, 2008
Cash	**$ 26.5**	**$ 104.9**
Credit Facility	55.5	–
6-7/8% Senior Notes due 2014	225.0	214.9
8-1/2% Senior Notes due 2016	272.2	274.1
8-3/4% Senior Notes due 2018	–	498.8
Total Debt	**$ 552.7**	**$ 987.8**
Total Partners' Capital	$ 611.3	$ 1,057.8
Total Capitalization	**$ 1,164.0**	**$ 2,045.6**
LTM Adjusted EBITDA[1]	$ 200.4	$ 296.2
Total Debt / Capitalization	47%	48%
Total Debt / LTM Adjusted EBITDA[1]	2.8x	3.3x
Adjusted EBITDA / Interest Expense[1]	4.8x	4.5x

NOTE: Financial data for historical periods has not been restated for the MarkWest Hydrocarbon merger.
[1] Adjusted EBITDA and interest expense calculated in accordance with Credit Facility covenants.

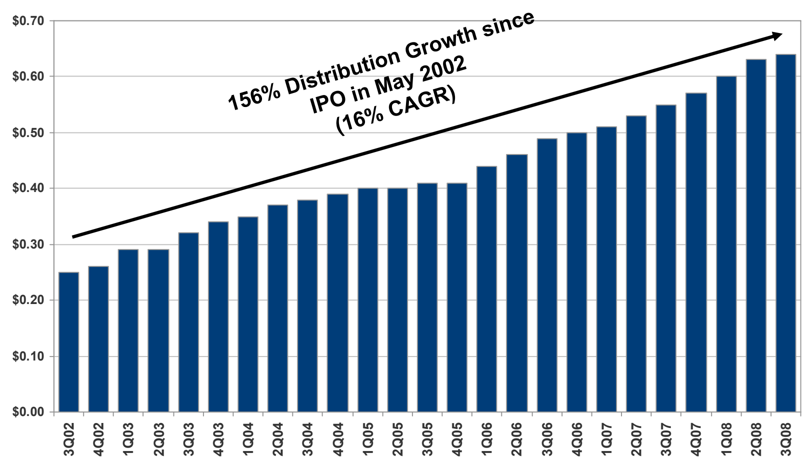
According to CEO Frank Semple in a November 11th earnings conference call, MarkWest saw the current, "extraordinarily ugly market conditions" coming, and had an equity offering earlier in the year, before market conditions drove the share price to bargain-basement levels. It raised $660 million in capital during Q2 2008, which pre-funded the majority of its 2008 and 2009 capital expenditures; to stay on the safe side, MarkWest also adjusted its 2009 budget to $300 million instead of the previously budgeted $400 million.

In addition to the $660 million in capital, MarkWest has also locked in a $350 revolving credit line, which it has not yet tapped into. Clearly, the firm has more than enough capital to expand, even in such a difficult market. This is a result of superior management maintaining a conservative balance sheet, and being prepared for the recent financial meltdown.

Additionally, MarkWest does not speculate in commodity futures, and it hedges 65% of its commodity exposure. Also, before it commits to any projects, the firm locks in revenue to cover that growth; for example, while its Arkoma pipeline in the Woodford Shale won't enter operation until next summer, MarkWest already has contracts for 90% of the pipeline's capacity. This is just another example of the firm's sensible approach, which will keep it healthy where other MLPs might fail.

Merger with MarkWest Hydrocarbon will add significant value
Upon the February 22 announcement of the merger between MarkWest Energy Partners and MarkWest Hydrocarbon, Frank Semple said, "The combination of MarkWest Energy Partners and MarkWest Hydrocarbon is very compelling for our equityholders, and will unlock substantial long-term value for MarkWest Energy Partners." This is indeed a positive development for the firm, as it no longer has to incur the costs associated with running two separate businesses. It also gives the firm more cash to fund its 2008 and 2009 growth projects, without having to raise capital at unattractive terms.

MarkWest has continually increased distribution since its IPO
As with most MLPs, management is committed to continually increasing its dividend. Since its 2002 IPO, MarkWest's dividend has increased to $0.64 from $0.25, a 156% increase. On October 23, despite the fact that its dividend yield was already around 13%, MarkWest increased quarterly distribution to $0.64 from $0.63. Clearly, a minor increase, but proof that the firm values its investors and is confident enough in its future cash flows to continue paying a hefty dividend.



Common Unit Distribution

However, the company is not leveraging its future just to appease stockholders; it has maintained a year-to-date dividend coverage ratio of 1.48, ensuring that it follows through on its core value of "sustainable distribution growth". This strategy fits perfectly with MarkWest's conservative approach to growth.

In conclusion, the over-20% yield gives investors something of a safety net in an uncertain market; as long as MarkWest does not cut distribution (which it is not expected to), the firm only needs to stay in business (which it is expected to) for its investors to see huge returns. This is the reason why banks and hedge funds bought up MLPs like MarkWest, and why the MII now needs to.

Risks
One of my VAR contacts predicted that smaller energy firms like MarkWest will have trouble financing their operations, and we might see a lot of mergers among the small-cap players. However, I believe that MarkWest's balance sheet is healthy enough to survive the current crisis, and will not be bought out.

Clearly, there is also the risk of MarkWest not being able to raise capital to finance its growth. These are difficult economic times, and the firm has already cut some of its 2009 budget. However, with the equity capital raised earlier in the year expected to fund most of this growth (according to Mr. Semple), and the untouched $350 million credit line, MarkWest should have enough to expand its operations while maintaining a big dividend.

There is the risk that natural gas will take a backseat to solar, wind, and nuclear technologies under the Obama administration. This is a real concern, but most of my VAR contacts believe these alternative energy technologies are still several years away from supplanting clean-burning natural gas.

Finally, there is also the risk that commodity prices will remain at low levels, which could hurt MarkWest's gathering and processing businesses. Again, most of my VAR contacts thought there was little chance of oil and gas prices staying cheap for very long.

Value-Added Research
Antone Peterson, Oil & Gas Lawyer, Streit Peterson Hall & Keeney, L.L.P.
Randy Keeney, Oil & Gas Lawyer, Streit Peterson Hall & Keeney, L.L.P.
When I first decided to present MWE as a potential long investment, I first asked my dad for advice. Along with his partner, Randy Keeney, he has been in the oil and natural gas business for over 30 years, and does a lot of work for huge natural gas players like Chesapeake Energy. Both he and Mr. Keeney emphasized the attractiveness of the natural gas industry, due to new breakthroughs like horizontal drilling, shale discoveries, and new processing technologies. Both are bullish on oil and natural gas, and believe that if firms can weather this unprecedented credit market, they will find themselves in a very good position "when the dust settles". My dad also emphasized "the Obama Effect", and believes natural gas will become a big part of the new administration's energy policy.

Dr. John Robinson, geologist and geophysicist specializing in oil and natural gas
Dr. Robinson told me that he is very bullish on the natural gas industry in general, and that pipelines should be fairly insulated from commodity risk, providing steady income in a tough market. He also told me about some of the "exciting new technologies" that will make extracting large quantities of shale gas possible.

Tony C. Chovanec, VP, Natural Gas Services and Marketing, Enterprise Products, L.P.
Leonard "Oki" Price, VP, Financial Trading and Structuring, Enterprise Products, L.P.
Corey Johnson, Senior Financial Trading Analyst, Enterprise Products, L.P.
I spoke to Messrs. Chovanec, Price, and Johnson for about two hours about the U.S. natural gas industry, and the future of midstream MLPs like MarkWest. All agreed that natural gas is an exciting business to be in right now, but also emphasized the difficulty of financing large capital expenditures and the risk of holding large amounts of debt. They were, however, impressed with the fact that MarkWest raised $660 million in capital earlier in the year, and has no long-term debt maturing until 2014.

Mr. Johnson stated that lower natural gas and NGL prices have made processing a less attractive business, but that pipelines are still a solid source of revenue and that he expects commodity prices to rise again soon. They talked about the lack of imported natural gas due to high prices overseas, the decline of Canadian and Mexican natural gas production, the low price of gas relative to crude oil, and natural gas' environmental-friendliness as reasons why they believe natural gas companies in the U.S. should take off. They also speculated that natural gas will be more heavily emphasized under the Obama administration at the expense of coal and ethanol.

Alvin Suggs, VP/General Counsel, Regency Energy Partners, L.P.; Former Executive, El Paso Energy
When I spoke to Mr. Suggs over the phone, he complemented MarkWest's "outstanding assets…positioned in very good areas", especially its South Texas operations. He was also impressed with the potential of shale plays, and successes thus far in the Barnett, Haynesville, Fayetteville and Woodford Shales. He stressed that "the natural gas business is a solid business at this point" and that natural gas prices will probably not drop any lower than current levels. Mr. Suggs also pointed out that even with more expensive horizontal drilling, shale plays such as the Marcellus and the Woodford are still economical at $5 to $6 dollar natural gas prices.

Pogo Kutzschbach, Former Executive, ConocoPhillips; Former Professor, Duke University
I also spoke over the phone to Ms. Kutzschbach, a former ConocoPhillips executive responsible for much of Conoco's natural gas processing operations. She told me a little more about the inner workings of the natural gas business, and said that MarkWest's pipeline operations should provide fairly stable cash flows, since revenues are based on million BTUs flowing through the pipelines and revenues are usually locked in far in advance of actual delivery. That is, contracts are usually structured before the pipeline is even laid, and independently of the price of natural gas. She also stated that "everyone in the business is excited about shale plays" and that they show a lot of promise.

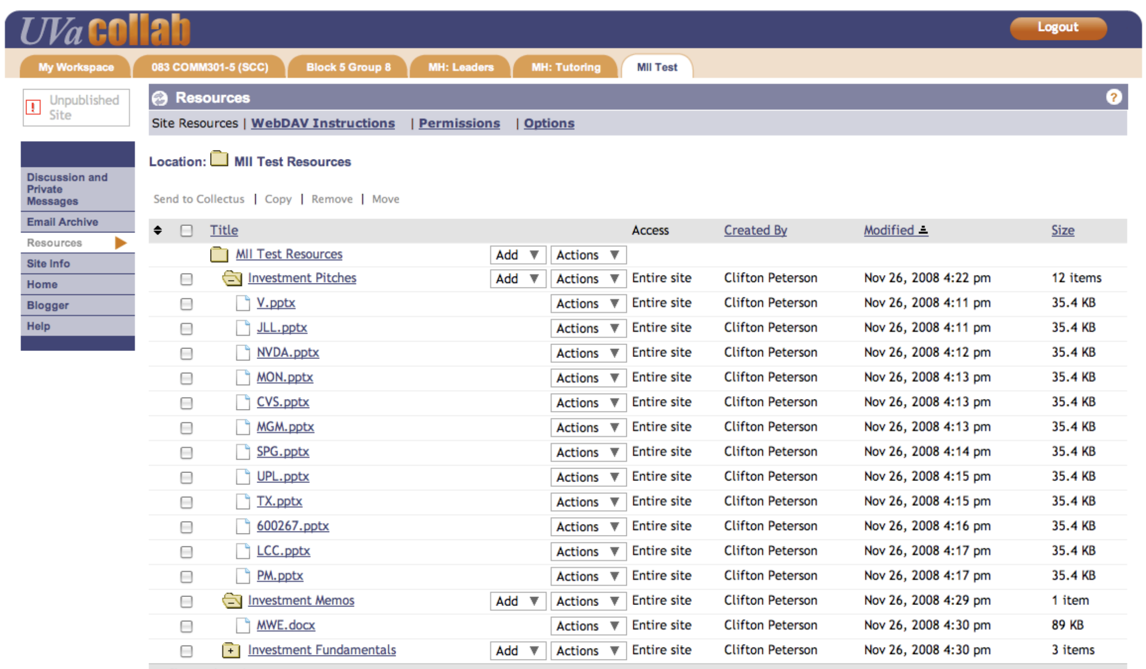
Robert Webb, Professor, McIntire School of Commerce
I spoke briefly with Professor Webb about the possibility of MLPs like MarkWest being undervalued due to forced sell-offs. He stated that there could be some exciting opportunities on the market with hedge funds and Lehman Brothers dumping their most marketable assets to raise cash. He said the main concern would be that deflated stock prices could hurt firms needing to raise equity capital. However, since MarkWest had a substantial equity offering earlier in the year, and it has yet to tap into its $350 million credit line, this should not be an issue in the short-term.

Avi Morris, Regular Contributor, SeekingAlpha.com
Mr. Morris is a regular columnist on SeekingAlpha.com, and has written several pieces on master limited partnerships. He did not give me any specific information on MarkWest Energy, but did e-mail me links to some good websites on MLPs.

*As of 11/30, I am still waiting to hear back from:
MWE Investor Relations
Tom Imre, Co-founder and CFO, Enerfin Resources
Joe Dilg, Managing Partner, Vinson & Elkins L.L.P.

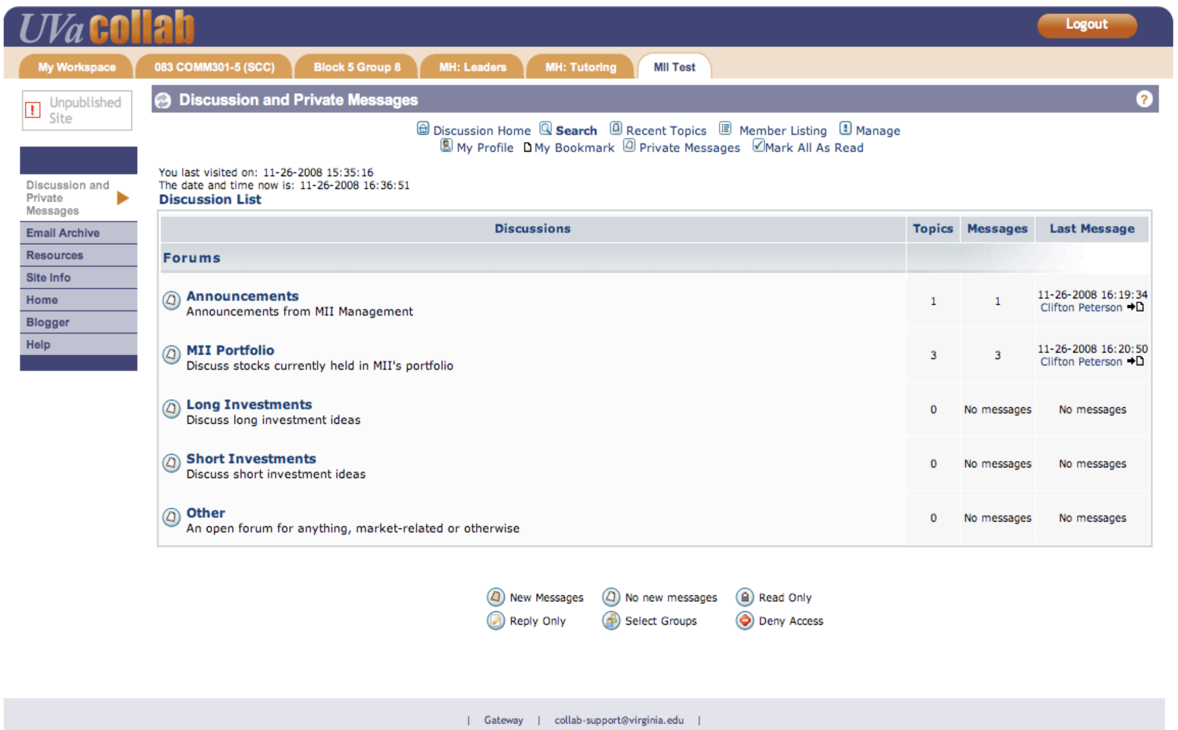
Ideas for MII
MII Collab Site
The idea for MII that I'm most excited about is an MII Collab site. I've already made a mockup of the site, and I think it shows a lot of potential. The homepage would simply be the uvamii.com homepage, with side tabs for Resources, Blogger, and Discussion and Private Messages.

The Resources tab would simply be a source for recent MII presentations and memos, as well as the investment fundamentals PowerPoints currently on the MII website. This is a much more convenient place for members to access this information, as most already use Collab for some of their courses.



The Blogger tab could be used for any number of things. I'd considered making it a blog for long- and short-fund managers, where managers could recap their decisions on past presentations, throw out new investment ideas, or even just post interesting articles on a regular basis. However, I think a more interesting use would be to gear the blog towards sector heads. Currently, sector heads do not have much of a chance to present their ideas, and many might not be ready to present in front of a large group. A sector head blog would alleviate both of these issues, and provide more content for members.

Finally, the most exciting aspect of the Collab site: the discussion boards. These could be a great way to encourage more regular interaction among MII members, and could act as a great learning tool, where more seasoned MII members give 1st- and 2nd-years a little more insight into their investing thought process. I'd envisioned forums like Announcements, MII Portfolio, Long Investments, Short Investments, and Other.



I believe that an MII Collab site would provide a wealth of investing information in a medium that most students use almost every day anyway. It would also make for greater interaction among club members and better communication from management and sector heads.

Sector heads for commodities and currencies

While the MII doesn't engage in commodity or currency trading, I think the events of the last several months illustrate the important effects of commodity prices and currencies on the stock market.

Designated sector heads could provide MII with a rough idea of where commodity prices and currencies are headed (possibly via the sector head blog). They could also help educate members on a subject they might not know much about.

Guest speakers

While the MII has hosted guest speakers in the past, it has usually tried to just fit them into the Monday/Thursday evening meeting time. This not only makes it difficult to schedule busy speakers, but also cuts into meeting time that could be devoted to member presentations. The MII should make guest speakers more of a special event, in order to better educate its members and even attract new ones.

Weekday evening seminars featuring special guests involved in investment banking, private equity, hedge funds and investment management could be a huge success. The MII could host these speakers at McIntire or even try other venues on- and off-grounds. Alumni Hall, in particular, is usually willing to donate its facilities for an evening or two. This would provide more of a "value-added" service to MII members, especially underclassmen that want to learn more about careers in finance and investing.

More events outside of weekly meetings

Along those same lines, I believe the MII should host more special events outside of weekly meetings. The stock analysis competition from a few weeks ago, although held on a Friday afternoon, was a good step in this direction. Professor Dinners, "field trips" to places like SNL or S&P on the Downtown Mall, or even just more regular e-mails from the Long Fund Managers would be great ways to "diversify MII's operating activities".