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XTEX - Q1 2012 Crosstex Energy, L.P. to Discuss Earnings and the Acquistion of Clearfield Energy, Inc. - Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the first quarter 2012 Crosstex Energy earnings conference call. My name is Jeremy and I will be your operator for today. At this time, all participants are in listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). I would now like to turn the conference over to your host for today, Miss Jill McMillan, Director of Public and Industry Affairs. Please proceed.

Jill McMillan *- Crosstex Energy LP - Director of Public and Industry Affairs*

Thank you Jeremy, and good afternoon everyone. Thank you for joining us today to discuss Crosstex's first quarter 2012 results. On the call today are Barry Davis, President and Chief Executive Officer; Bill Davis, Executive Vice President and Chief Operating Officer; and Mike Garberding, Senior Vice President and Chief Financial Officer. Our first quarter 2012 earnings release and an additional press release about our acquisition of Clearfield Energy Incorporated were issued early this morning. For those of you who didn't receive copies, they are available on our website at Crosstexenergy.com. In addition, we have posted a slide presentation with additional information on the Clearfield acquisition on our website. If you want to listen to a recording of today's call, you have 90 days to access a replay by phone or webcast on our website.

I will remind you that any statements that might include our expectations or predictions should be considered forward-looking statements within the meaning of the Federal Securities Laws. Forward-looking statements are subject to a number of assumptions and uncertainties that may cause our actual results to differ materially from those expressed in these statements. And we undertake no obligation to update or revise any forward-looking statements. We encourage you to review the cautionary statements and other disclosures made in our SEC filings, specifically those under the heading Risk Factors.

Before I hand off the call, I want to mention that our plan today is to keep much of our call very high level because we want to have plenty of time to discuss the Clearfield Energy transaction and our other recent announcement about the second Phase of our Riverside expansion. We covered a lot of ground about our growth strategy in operations at our analyst conference in late March. A replay of that webcast is available on our website. I will now turn the call over to Barry Davis.

Barry Davis - *Crosstex Energy LP - President and CEO*

Thank you Jill. Good afternoon everyone and thank you all for joining us on the call today. I will begin by quickly reviewing our 2012 first-quarter financial results. Then I will walk through the approximately $620 million of growth projects we have or will execute in 2012 and 2013. And finally, I'll discuss the exciting opportunities surrounding our Clearfield acquisition and the growth in the rapidly developing Utica Shale which we believe will be a strong sustainable growth platform for us. Bill will then update you on the status of our growth projects, including our Riverside Phase II expansion, and review our operational results. And finally, Mike will wrap up with our first quarter financial results.

Looking briefly at our first quarter 2012 financial results, I am pleased to report that we achieved excellent results. Our adjusted EBITDA was $58.5 million, a 9% increase over the first quarter of 2011. Distributable cash flow was $35.6 million, up 15%, compared with the year ago quarter. These results allowed us to increase our distributions 14% and our dividends 33%, compared with the first quarter of 2011. Our core assets and growth projects continue to provide us with excellent cash flow, supporting 1.5 times coverage of our distribution. So we remain committed to strong distribution and dividend growth this year while maintaining disciplined balance sheet management. Our focus on sound financial metrics and discipline have positioned us to take advantage of the many exceptional business opportunities in today's robust industry environment.

Now I want to reiterate our growth plan, which has not changed. We have shared our objectives with you many times during the past several months and I'm proud to say that we have continued to meet these objectives by successfully executing our plan. Our first objective is to maximize the earnings and growth of our existing businesses. Our teams continue to improve operations and find opportunities to expand our existing systems and services in our core areas. Our second objective is to enhance scale and diversification. We have often stated that our three strategies for growth and expansion are first, acquire assets to serve as new growth platforms. Secondly, build organic infrastructure in emerging shale plays. And thirdly, use existing NGL crude infrastructure to provide services in new regions. As a result of this plan and execution, we've seen strong historical growth resulting in 18% and 15% EBITDA growth in 2010 and 2011 respectively. Looking forward, we will continue to execute our growth strategy with defined capital projects now totalling approximately $620 million in 2012 and 2013.

Now to the discussion of our acquisition of Clearfield Energy, and I'll refer you to the slide presentation that Jill mentioned earlier. As we've mentioned today, we announced that we have signed a definitive agreement to acquire Clearfield Energy, a crude oil condensate and water services company. We are very excited about the transaction, which is a big step in the execution of our strategy to grow and diversify our business, providing us with a new geographic footprint and expanded service offerings to our customers. Before I get into the details, I want to emphasize that there are three key points. First, this acquisition provides a tremendous platform for growth in a strategic producing area. Second, it adds to our capabilities that we can use in other operational areas. And third, the acquisition has attractive economics and will be accretive in 2012. Thanks to our business development outreach and our relationships with the right people, we believe we've found a unique opportunity in a hypercompetitive environment.

On slide 2, I'd like to acknowledge our forward-looking statements. Now moving to slide 3, our acquisition of Clearfield establishes a new geographic footprint for us. And this slide puts the strategic location of all our assets in perspective. The map shows our substantial growth projects underway in Texas and Louisiana as well as our existing assets. With the Clearfield acquisition, we're adding a core asset in another part of the country that is supported by solid legacy production and will provide us with access to the Utica shale and the surrounding Marcellus production region. We will use these assets as a platform for growth and then enhance and develop them just like we did our LIG assets that we bought in Louisiana and our Barnett Shale Assets that we acquired from Chief.

Moving to slide 4. We will continue to effectively execute our growth and expansion strategy through a projected capital expenditure program of $622 million in 2012 and 2013. This includes the following -- a $262 million for acquisitions made up of $210 million to purchase Clearfield and $52 million for Howard related to the Maritimes acquisition; $360 million for organic growth projects made up of $230 million for Phase I of our Cajun Sibon Pipeline extension project; another $50 million in the Clearfield post acquisition which will enhance this investment over the long term; $29 million in our Permian basin projects, which include our JV with Apache; and $21 million in our crude terminal project in southern Louisiana. We also believe will have about $30 million in additional growth that we've described as other. Bill will update you on our progress on these growth projects a moment. The important point here is that we have executed on our strategic plan. These projects are all fee-based and align with the long-term stability of our business and provide us with diversity in both the services we offer our customers, and enhance our scale and diversification into new geographic areas.

Moving to slide 5. We've announced a definitive agreement to acquire privately held Clearfield Energy Inc. for approximately $210 million in cash at closing. We expect the acquisition to be immediately accretive to distributable cash flow. The cash purchase price for Clearfield equates to approximately a nine times multiple of recent run rate EBITDA. Based upon our current forecast, it is expected to move to a five times EBITDA multiple within three years, with approximately $50 million of additional capital investment. We anticipate the transaction will close in July, subject to the customary closing conditions and regulatory approvals.

We are quite fortunate to be acquiring Clearfield, which is a 125-year-old Company that is well established in the fee-based crude and condensate service business in Ohio, West Virginia and Kentucky. Their assets include pipeline, rail, barge facilities and trucks. The Company's operations also include brine water collection and disposal services in Ohio and West Virginia, with six existing brine water disposal wells and two under development. In 2011, Clearfield handled approximately 30% of the oil production in Ohio and Kentucky, and 55% of West Virginia's oil production, including the majority of new Utica shale crude and condensate production, which is quite an impressive market share.

The map on slide 6 shows how well Clearfield's assets are situated relative to the Utica shale. The oil window and rich gas area as well as the dry gas portion of the play. Their diverse assets include a 4,500 barrel per hour barge loading terminal on the Ohio River, and a 20 car 28,000 barrel-per-day rail loading terminal on the Ohio Central Railroad network. The rail terminal is currently being expanded to a 40 car 56,000 barrel-per-day facility and will be completed by the end of the year. Clearfield's assets also include about 200 miles of 8 inch and 6 inch diameter pipelines in Ohio and West Virginia. Approximately 100,000 barrels of above ground storage, six existing brine water disposal wells with two under development, and an extensive truck fleet with a total capacity of 35,000 barrels per day. In addition, Clearfield owns more than 2,500 miles of unused right-of-way strategically located in what is projected to be the oil and rich gas sections of the Utica play.

Turning to slide 7. We believe acquiring Clearfield is a strategic move that will create significant value for three reasons. First, as I mentioned, it gives Crosstex entry into the prolific production areas of Ohio, West Virginia and Kentucky, with a footprint in the fast-growing Utica shale and access to the growing Marcellus production region. The play's aerial extent is quite expansive and Clearfield's assets cover a substantial portion as you saw on the map. Second, Clearfield will diversify our midstream services into crude oil pipelines, barge and rail line terminals centrally located in Ohio. Trucking and brine water disposal wells, all of which complement our other midstream business. We will leverage these expanded logistics capabilities for use in other operating areas as well. All of this will transform us into a better-rounded midstream company that serves both gas and oil producers. This is especially important today when there is an increasingly urgent need for additional infrastructure to move NGLs, condensate and crude.

And third, Clearfield provides a substantial platform for growth, as I mentioned earlier. The Company is a well-known and highly regarded operation in both Ohio and West Virginia, where it has established customer relationships with a first mover advantage for its services in these areas. Clearfield has developed significant competitive advantages as an early leader in crude and condensate services. Their positions with our capital and additional services for rich gas gathering and processing will drive additional growth as these areas continue to develop. And there is capacity for growth. Their current truck fleet has a total capacity of approximately 35,000 barrels per day and we believe the pipeline facilities could handle about 27,000 barrels with minimal capital investment. Clearfield has an outstanding legacy that includes a talented workforce and solid operations. They have a strong local presence, and as I mentioned, deep existing customer relationships.

Moving to slide 8. I think most would understand why we find the Utica so attractive and why we believe that expanding there will be the next major growth driver for business. Major oil companies and large independents alike including Chesapeake, Devin, Anadarko, Chevron, and EnerVest have acquired significant acreage positions in the Utica and they are working to further delineate the oil and the wet and dry gas windows into play. As you can see on this slide, the number of drilling permits in the Utica has skyrocketed from fewer than five in the first quarter of 2011 to nearly 85 a year later. Likewise, the rig count in the play has climbed from two early last year to 12 today. We've done a lot of research, and based on our work in this area we are thrilled to be on the ground floor of the Utica's development as it takes off and realizes its potential as perhaps one of the best oil and gas plays in the country today. As an early leading midstream services provider in the Utica, we are confident that we will be able to capitalize on the growth of the play's production as producers develop their acreage positions and begin to move more effectively extract natural gas and crude from the region.

We have several strategies as outlined on slide 9 for increasing EBITDA. We will secure agreements and then establish gateways to additional markets through secured volume commitments and producer joint venture agreements. We also expect to establish export agreements with

Western Canada's Diluent market customers. We also will secure agreements to utilize capacity of additional brine disposal wells and maximize our capability to gather combined crude and water products from producer's wells for separation at Clearfield facilities. Clearfield's platform and unused right-of-way along with Crosstex's producers relationships create opportunities to expand into gas and NGL gathering, transportation, processing and fractionation in the Utica. By the way, we already have great relationships with several producers in the Utica because they are Crosstex's customers in Texas and Louisiana. And finally we will work with Clearfield to bring additional resources to improve efficiencies which will allow our pricing to be more competitive.

To sum up, the position created by Clearfield including their excellent operations, talented employees, and well-positioned assets supported by our core experience and financial position, will provide a great opportunity for us to accelerate growth and capitalize on the projected production increase in the Utica. Clearfield provides access to a new shale play and enhances our diversification in terms of our asset base and service offerings, representing a strategic step into crude and condensate logistics. In all, Clearfield is an ideal acquisition for us because it will provide us with a tremendous platform for future growth and one that we believe will create significant value for our investors. Now I will turn it over to Bill who will update you on our growth projects and our operations.

Bill Davis - *Crosstex Energy LP - EVP and COO*

Thanks Barry. And thanks to everyone for being on the call this morning. As Barry said, our core business has performed extremely well in the first quarter of 2012. We've also made great progress on our growth projects, which I will update you on starting with our joint venture with the Apache Corporation in the Permian basin. As we've said, we started up the Deadwood Refrigeration Plant in February with a capacity of 20 million cubic feet of gas per day. Our new cryogenic plant that has a capacity of 50 million cubic feet of gas per day is now online and should be in full operation next month. The Mesquite fractionator that we refurbished, has been operating since early this year to create space on Chevron's pipeline for Apache's liquids. We're loading rail cars at Mesquite with the heavier NGLs that we take off the Chevron line and send to our Eunice Plant for fractionation. We expect volumes through these facilities to grow as our cryogenic plant goes into service next month.

Turning to the Cajun Sibon pipeline expansion, we're making good progress in acquiring right-of-way and permitting Phase I which will have a capacity of 70,000 barrels of NGLs per day. We have signed contracts and have solid verbal commitments nearing final contract status on virtually all of the capacity. We expect pipeline construction to begin in the third quarter of 2012 and that the facilities will be operational at or near full capacity in the first half of 2013. All activities are on schedule to meet this timeline. We are currently negotiating commercial agreements and finalizing engineering for the Phase II expansion of the project, which would provide additional capacity of 50,000 barrels per day, can be completed in 2014. Our fee-based crude and condensate terminal business is underway in southern Louisiana, where we have access to the premium Louisiana light sweet markets.

In January, we completed Phase I modification of our Riverside facility for transloading of crude oil from rail to barges. We are also stabilizing and transloading condensate through Eunice and have begun to see these volumes increase in the second quarter. Yesterday, we announced Phase II of the Riverside expansion which will increase our capacity to transload crude oil from rail cars to both barges and pipelines at Riverside to approximately 15,000 barrels of crude oil per day. Construction will begin in late June 2012, and the facilities will be operational in the first quarter of 2013. We have entered into a long-term agreement with a major crude supplier in the region that supports this $16 million expansion with annual cash flows expected in the $10 million range. This is another example of a low-cost, high-return investment allows us to execute our growth strategy by using an existing asset to launch additional business. This time in the crude sector. We're also evaluating a Phase III expansion that would bring unit terrains to Riverside. If we decide to proceed with this project, we expect we would complete this phase in early 2014 and would expand our capacity up to an additional 40,000 to 60,000 barrels of crude per day.

Turning to the Eagle Ford, we've recently expanded our footprint there through our equity investment in Howard Energy Partners. In mid-March, it was announced that Howard signed a definitive agreement to acquire 185 miles of pipeline in South Texas from Meritage Midstream Services, and this transaction closed in April. So we now have a solid investment at about 450 miles of pipeline to cover six counties in the Eagle Ford. GE Energy Financial Services also took equity interest in Howard's Meritage acquisition joining Crosstex and Quanta, with the three of us each owning a 30% equity interest in Howard. Howard's midstream assets are performing well and the construction side is significantly exceeding expectations. We continue to be excited about the position of Howard's assets in the Eagle Ford and are confident they can create many additional growth opportunities for us.

Turning to our legacy operations, we expect our North Texas gathering and transmission system volumes in the Barnett Shale to be basically flat during 2012, compared with the average for 2011. However, we did see an increase in throughput volumes on these systems in the first quarter due to the second phase of the Benbrook expansion that came online at high volumes of rich gas, which filled our processing plants above their capacity levels. Benbrook's second phase had 25 additional wells brought on in January of 2012 and reached a peak volume of 100 million cubic feet per day in late February. Approximately 40% of the volumes we're gathering today in our North Texas system are rich gas. In late March, we had 285 million cubic feet of gas per day in our plants against a main plate of about 280 million cubic feet per day of capacity. In the second quarter, fractionators in Mont Bellevue which take our North Texas liquids will complete a turnaround over about four weeks. During this period, our liquids will be placed in storage, which may defer some revenues from the second quarter until the third quarter.

Moving to LIG, our LIG provides 440 million cubic feet per day of fully contracted takeaway capacity for gas in the Hainesville shale. Our contracts have a weighted average volume life of approximately five years, protecting us from drilling fluctuations. In addition to operating in the Hainesville, producers are actively evaluating the Austin Chalk and the Tuscaloosa Marine shale for liquids rich production opportunities. There is a great deal of producer interest in both of these formations. Either could dramatically change to enhance LIG and PNGLs gathering, processing and fractionation volumes. On the other hand, producers have found that there are some significant challenges to cracking the code here. We're watching the activity closely and right now it's still too early to predict if these plays will be successful. We continue to explore possibilities for additional processing at our plants including bringing in new gas supply to Plaquemine and give some processing, and have continued to increase volumes through our LIG system into Pelican.

Turning to our PNGL, our natural gas liquids business in southern Louisiana, strong processing margins, increased opportunity processing, higher NGL and crude rail car volumes, and higher fractionation fees helped improve results from the fourth quarter of 2011. Our units NGL rail expansion in Riverside NGL and loading project were completed in April. These projects will allow us to grow our rail and truck volumes from the Permian Basin, the Marcellus, Eagle Ford and other plays as the year progresses. Lagging fractionation and NGL pipeline capacity has continued to push fractionation fees higher across all regional markets. And we have benefited from our available fractionation capacity in Louisiana.

Looking ahead, we continue to pursue projects that create incremental, fee-based stable income for our NGL fractionation business. We also continue to focus on increasing our NGL and crude business and maximizing the value of our gas plants through strong opportunity processing. Currently, our NGL barrel is about 58% ethane. Our ethane content has increased in recent months due to the gas that we're processing off interstate pipelines at Eunice, Pelican, and Gibson, which has high ethane content as it has generally processed once and has had the heavier NGLs removed. Now Mike Garberding will discuss our first-quarter 2012 financial performance

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Mike Garberding - *Crosstex Energy LP - SVP and CFO*

Thanks Bill. In our earnings release, you'll find reconciliations of certain non-GAAP items to their GAAP equivalents which we'll discuss on the call today. Please refer to the earnings release for those reconciliations. In addition, our 10-Q was filed this morning with the SEC, which you can access for more details on our results. We've been talking a lot about strategically and financially positioning ourselves for growth. This has given us the flexibility to execute our plan. The growth represents a good combination of high return bolt-on transactions around our existing assets and longer-term expansions into new regions and products. We will continue to focus on insuring the business has adequate financial flexibility.

Again, we had another great quarter from our base business. The partnership realized adjusted EBITDA of $58.5 million in the first quarter of 2012, an increase of 7% from fourth-quarter 2011 EBITDA of $54.6 million. Gross operating margins for the first quarter was $99.8 million an increase of $2 million from the fourth quarter of 2011. This increase was primarily the result of an increase in gathering and transmission volumes and increased fractionation and market activities in our PNGL segment. The strength of the quarter and the continued execution of our 2012 plan allowed us to increase the quarterly distribution per unit to $0.33, a 14% increase over the year ago quarter. We also ended the quarter with very strong distribution growth of 1.5 times. As we have stated before, we believe our annual distribution coverage should be in the range of 1.2 to 1.3 times, depending upon business opportunities during the year. This coverage could be different on a quarter-to-quarter basis, however we still expect to be in that range for the year.

The first quarter EBITDA did include some items that we do not expect to continue into the second quarter. This is around $2.5 million in gross operating margin. We also expect some items in the second quarter, like the Mount Bellevue fractionation maintenance that Bill mentioned, could impact gross operating margin during the quarter. Therefore, we should see some decline in the second quarter of 2012 related to those items as compared to the prior quarters. From a balance sheet perspective, we still have strong liquidity position we currently have approximately $400 million available on our credit facility which gives us ample liquidity for our business and our 2012 growth capital program.

We are very excited about the opportunities around the Clearfield acquisition. This transaction should be immediately accretive to distributable cash flows for 2012, given its cash flow trajectory. However, we are currently not changing our guidance for 2012 due to the growth around the Clearfield business and the growth capital incurred for Cajun Sibon in 2012 a project that is not operational until mid-2013. We do believe Clearfield will support good distribution growth in the future, based upon the business plan we laid out. As we have stated in the past, we plan to fund our growth capital expenditures and acquisitions with approximately equal parts debt and equity. Our current capital expectations for 2012 include base business growth capital of approximately $286 million, $210 million for the Clearfield acquisition at closing, and an additional $20 million for Clearfield growth projects.

We have continued to see strong processing margins during the first quarter of 2012 even with the drop off in ethane and propane prices as compared to 2011. During the first quarter, we had a weighted average NGL price of a $1.12 per gallon and an NGL to gas ratio of 497%, compared with a weighted average NGL price of $1.37 per gallon and an NGL to gas ratio of 432% in the fourth quarter of 2011. This translated into approximately $25 million of our first quarter gross operating margin coming from commodity-based opportunities. As Bill mentioned, the increase in commodity-based opportunities has lightened our average NGL barrel. The increase in distribution coverage for the quarter took into consideration the continued contribution from commodity-based opportunities as well as the quarter-specific items I mentioned earlier.

We've continued to add positions to hedge our commodity exposure in 2012 and 2013. Currently we've hedged approximately 88% of our target percent of percent of liquid volumes and approximately 78% of our target percentage of processing margin volumes for the last three quarters of 2012. We have also added to our 2013 hedges. To date, we have hedged 72% of our target percent of percent of liquids as well as 27% of our target percentage of processing margin volumes in 2013. As stated in the past, we only use product specific hedges in the forward liquids market.

Turning briefly to Crosstex Energy Inc., the Corporation had a year end cash balance of approximately $6.3 million which will continue to grow as a portion of the distribution it receives each quarter are added to its cash balance. This cash will be used to make its 2% matching contribution on the Clearfield acquisition at close. As we have said, we currently don't envision any significant income taxes to be paid by the Corporation in the near future. Now I'll turn the call back to Barry.

Barry Davis - *Crosstex Energy LP - President and CEO*

Thank you, Mike. As you can see we had a great first quarter and are well on our way to a successful 2012. We continued to do what we said we would do. We pushed ahead with our growth projects in our new operating areas and again met our objective to broaden the size and scope of our assets and operations through the strategic acquisition of Clearfield Energy. This is an energizing opportunity that aligns us with an existing strong Company and gives us entry into an entirely new geographic liquids-rich area where we will participate in the growth surrounding the rapidly developing Utica shale. We also met our objective of growing our existing businesses and maximizing their contributions to the bottom line. As always, our top priority is to create value for our investors and we believe we are meeting this objective above all others. Our vision in 2012 remains unchanged. To be the best midstream energy solutions provider in the industry. Now we'll turn the call back to our operator Jeremy, and Bill, Mike and I will be happy to answer any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Darren Horowitz of Raymond James & Associates.

Darren Horowitz - *Raymond James & Associates - Analyst*

Good afternoon guys. Couple questions for you. First on the acquisition of Clearfield. Is that $50 million of additional investment that's going to drive that EBITDA multiple down to five times, is that associated with Ohio rail loading terminal expansion and those new brine wells or do you also have something built-in for the expansion on that truck fleet or possibly the expansion of that existing pipeline?

Barry Davis - *Crosstex Energy LP - President and CEO*

Darren, it is a combination of a number of things. First of all, we've got significant optimization of the existing capacities that will drive the EBITDA. So if we were not investing at all we would have a lot of capacity to fill within the operation. But there are a number of identified opportunities to optimize or to expand particular parts of the operation including truck fleet, saltwater disposal, rail and barge loading terminals et cetera. So it's a number of items.

Darren Horowitz - *Raymond James & Associates - Analyst*

Okay. And -- so it's going to be of the $50 million it's going to be $20 million spent for the duration of 2012 and how does the remainder of the CapEx get split in years two and three?

Mike Garberding - *Crosstex Energy LP - SVP and CFO*

The majority of the rest is really split is it's spent in the next year with just a little trailing into the third year.

Darren Horowitz - *Raymond James & Associates - Analyst*

Okay. And then last question Mike, and we appreciate the color on the POL and processing exposure. But given the heavier ethane shift and your focus over a longer-term period to be more fee based on a percentage of aggregate gross margin, has there been any change in the amount of POL processing that you want to run in 2013 or 2014 as you expand capacity across PNGL?

Mike Garberding - *Crosstex Energy LP - SVP and CFO*

Well really if you look at what we've done, our POL processing has remained somewhat stable and what's happened is we've actually taken advantage of increasing our processing margin really when the margin was there. So if you look at an overall business standpoint we're still 75% fee based 25% commodity based. And you'll see the ebb and flow probably in the processing margin business not the POL business.

Darren Horowitz - *Raymond James & Associates - Analyst*

Okay I appreciate it. Thanks guys.

Operator

John Edwards with Credit Suisse.

John Edwards - *Credit Suisse - Analyst*

Yes. Good afternoon everybody. Just a couple questions. Just I guess Mike or Bill can you provide any details regarding the potential magnitude of the impact of the frac turnaround that's coming later this quarter?

Bill Davis - *Crosstex Energy LP - EVP and COO*

Well it could be anywhere between zero and $2 million of margin. And it's only a deferral to the extent it's an impact. It pushes from the second quarter into the third quarter.

John Edwards - *Credit Suisse - Analyst*

Okay great. And then, what kind of CapEx opportunity are you expecting beyond the $50 million you gave in the presentation for the Clearfield transaction? What's your best guess on the outlook right now?

Barry Davis - *Crosstex Energy LP - President and CEO*

John, this is Barry. It's very early goings as you know, in the Utica. We have the first couple of dozen wells that have been drilled. And so it's hard yet to -- we like everything that we've seen. We've studied it very thoroughly and we're optimistic that we're going to see some really good things come out of it. But, it's still early. It's still premature to give any scope and size to the ultimate infrastructure build out that will be required there. We feel really good about being exposed to all of that growth opportunity with basically a platform and an organizational capability and experience to really take advantage of that.

John Edwards - *Credit Suisse - Analyst*

Okay great. And then just curious how long have you been looking at the Clearfield transaction?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes, well first of all I'd say we've been focused on the Utica now for probably 1.5 years or so as we -- through relationships with some of the earliest movers there. We began to look at organic opportunities to build something there to start with. And as we always do when we look at new areas we look around at other things that would be platforms. So really kind of from the beginning we started seeing this opportunity and entered into discussions through relationships sometime ago. Several months ago.

John Edwards - *Credit Suisse - Analyst*

Okay great thank you very much.

Operator

Sharon Lui with Wells Fargo.

Sharon Lui - *Wells Fargo Securities, LLC - Analyst*

Hello, good afternoon. Maybe if you could just talk about the current utilization of the Clearfield assets. And what your expectation is in terms of that ramp-up to achieve that five times multiple?

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Barry Davis - *Crosstex Energy LP - President and CEO*

Yes, first of all let me address the capacities and Mike can be thinking about how to describe the cash flow build. But basically the way to think of it is their existing assets are probably about 50% utilized. And whether you're thinking of the existing pipelines, terminals, truck capacity. So we think that the next barrels of product come out of Utica we're very well positioned to provide services for those barrels. The $50 million of expansion capital that we've identified is I would say very efficient capital to increase substantially the capacity of all of those components. Again terminals, disposal wells as well as trucking and barge and rail. So lots of capacity can be created to be essentially the first provider of services for those areas and we think it's right now. Daily we're seeing with the 12 rigs in operation, we are seeing wells brought on and a lot more being known about what the ultimate development is going to be here.

Bill Davis - *Crosstex Energy LP - EVP and COO*

Yes. And as far as timing. Again just like Barry mentioned it all depends on development. But based on our plan today we see really that the business moving from sort of that nine times multiple to more of a six to seven to more of a five times over time. When you think about it. And that is really again, dependent upon the continued ramp of the operations up in the Utica.

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes. And one of the things, Sharon that we would like to emphasize as well as that we think this -- what really makes this transaction unique is the this business has been there and essentially performing at its current level for a long time. There is solid legacy production in this area that they have been the provider of services for and so the Utica development and the Marcellus development that's coming or happening as we speak is really on top of a very solid operation and that's why we're excited about it.

Sharon Lui - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you. And also I guess in terms of gains about five times multiple. Are you assuming that essentially the assets become 100% utilized or close to 100% utilized? Is that the way to think about it?

Barry Davis - *Crosstex Energy LP - President and CEO*

At the point of $260 million investment and a little North of $50 million in cash flow we would not be at 100% utilization. But it is much, much higher utilization than is currently being managed.

Sharon Lui - *Wells Fargo Securities, LLC - Analyst*

Okay, and maybe if you could just talk about the major customers for Clearfield. And the types of contracts that are in place right now?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes. Again, a very long standing business with smaller legacy operators in this area. A significant number of producer operators that they have provided services for. Layer on top of that all of the guys that we named earlier. That are the Utica developers and that's essentially their supply-side or their producer side customers. On the downstream side, they are a major provider to all of the local refineries and market outlets there. And you have a number of refineries that are in the immediate area. That they have access to.

Sharon Lui - *Wells Fargo Securities, LLC - Analyst*

Okay. And I guess in terms of just the contract types.

Barry Davis - *Crosstex Energy LP - President and CEO*

As you would find with this type of business, Sharon it's typically going to be very short term. Kind of month to month or on an interruptible basis just as needed services. So very few long-term contracts in this type of business.

Bill Davis - *Crosstex Energy LP - EVP and COO*

But it's consistent with what you see in our southern Louisiana business to where you have the shorter-term contract but you've been with that customer for a very extended period of time. So in reality, it looks like a very long-term relationship even though the contract might be shorter in stature.

Barry Davis - *Crosstex Energy LP - President and CEO*

I think importantly as we expand the facilities, we do think it's very reasonable to get longer-term contracts to support any investments that we will make. Because the capacity is going to be a precious commodity. The very near term capacity is going to be a much desired commodity in this play.

Sharon Lui - *Wells Fargo Securities, LLC - Analyst*

Okay great. Thank you so much.

Operator

Noah Lerner with Heart's Capital.

Noah Lerner - *Heart's Capital - Analyst*

Good afternoon everybody and congratulations. You guys obviously have been busy with these couple of transactions here. A couple of questions on the Utica transaction. And kind of following up on Sharon's. Because it seems like there's a little bit of build it and they will come. I'm just curious, who are the competitors that you have to worry about stealing your volumes as you grow it out?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes. Noah, let me first of all thank you for your compliments. I would say, that's what again makes us feel really good about this business. Is that it is a solid existing business bought at a reasonable economic return on the base business. We think that they have a very good market share, very solid relationships with the existing business. And so when we think about it, we think about really how are we going to be competitive for the growth that's going to happen? And I'd say first of all, the existing infrastructure we find in the shale plays as they emerge is critical so that you can provide services that they need now as well as the capital and the capability to build it out. So we think we can compete well. I think any of the logistics players potentially will become players in this play as it becomes larger. And -- but we're there now. We're there first, and we're going to be very aggressive in trying to grow our position working with the Clearfield team in this area.

Noah Lerner - *Heart's Capital - Analyst*

Okay great. Second question, with the 2,500 miles of unused right-of-way. Just curious, is that -- knowing that there's wet gas, there's dry gas and there's oil zones. Are those right-of-way mileage multi-line right-of-ways or single lines so where that you could possibly drop three lines and be a one-stop provider to future customers?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes Noah, we're going to be pretty limited in how we're going to explain those just from a competitive reasons. But we think they are an asset that will be valuable to us as we look to develop further from this platform. As I said in the prepared remarks, they are extremely well positioned relative to the places that you're seeing right now. People beginning to develop production and needing to build facilities. So we think they'll become a valuable asset that really gives us an advantage.

Noah Lerner - *Heart's Capital - Analyst*

Great. I guess, one last question on the Clearbridge acquisition. And there's been news stories over the last handful of months about the earthquakes I guess it was in January this year. And some people -- I think even the government there in [casege] office kind of traced it to some of the water well disposal or the disposal Wells. I'm just curious. What kind of analysis you did what kind of due diligence you did to get comfortable that part of the business is sustainable and in fact you'll be able to grow it since you do have two additional wells under development right now?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes, Noah let me say first of all, we've studied it in depth with both internal and external expertise in this area. And we became comfortable that there is characteristics of the wells in the areas that we operate that really differentiates us from some of the areas that has been -- have been a problem. I think basically what you're able to see is the depths and it's location relative to false and as we look at it we became comfortable that there's a reason that these wells are operating and operating well. But certainly something that we will have to pay a lot of attention to as we look to expand this business.

Noah Lerner - *Heart's Capital - Analyst*

Great. Thanks for everything and good luck.

Operator

Bernie Olson.

Bernie Olson - - *Analyst*

Hello. A lot of the issues were addressed but I guess I'm trying to figure out what besides the producer relationships -- I understand the crude oil gathering and the infrastructure business is very different from the on the natural gas side. It sounds like you plan to use this as somewhat of a foothold to get into that part of business. So I was just wondering what particular advantage this asset base gives you four transitioning into that business?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes Bernie, again first of all we think that it is a first mover. It's available capacity is where all of the barrels that are coming out of the Utica now. I believe that these assets are currently providing services for 100% of the condensate and crude production coming out of the Utica play. So to me that's evidence that it is well-positioned and is going to benefit from the development there. Now it's up to us. And we feel really good about our capabilities to maintain and to grow market share in plays like this. It's completely consistent with what we've done in all of the other plays that we've ever been in starting with South Texas to Louisiana where we've expanded significantly everything that we've owned there as well as the Barnett Shale. So we think it's in our wheelhouse to take a platform like this and to work with the producers and our organizational capabilities to really expand from a platform. So again we -- if that is the execution challenge. We like that challenge. Because we think it fits us well.

Bernie Olson - - *Analyst*

Okay. Alright that's it for me. Thanks.

Operator

James Jampel.

James Jampel - *HITE Hedge Asset Management - Analyst*

Yes, can you talk a little bit about the process for acquiring Clearfield? How many other bidders were there? And just how did the transaction go down?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes. Not a lot James, but I will tell you this. I think it really speaks to our capabilities and really the strength of our organization. We were introduced to the opportunity through a relationship. And then, it was on us to essentially convince the family the private owners of this business that Crosstex would be their best partner and it would be best to turn this business if you will over to us long-term because of the way we do things. So I would say it comes down to just that. There was great alignment around the culture of our Company and the culture of the company that they wanted to be associated with. We spent several months getting to know each other before we really had any opportunity to combine in this business. So it was a bit unique, very much based on relationships and I'd say that versus it being an auction. Auctions today are aren't valuing the things that we bring to the table which is our strong relationship capabilities in the way that we want to partner if you will with the existing employees.

James Jampel - *HITE Hedge Asset Management - Analyst*

And what's your guess as to why they were willing to sell?

Barry Davis - *Crosstex Energy LP - President and CEO*

I won't guess. I think there's always a time. And there's always a price. And my guess is that the transformation that you've seen in this area changed the dynamics to the point where these owners were interested in looking at a different opportunity.

James Jampel - *HITE Hedge Asset Management - Analyst*

I see, are they taking any equity?

Barry Davis - *Crosstex Energy LP - President and CEO*

The transaction is all cash.

James Jampel - *HITE Hedge Asset Management - Analyst*

All cash. Okay thank you.

Operator

John Edwards.

John Edwards - *Credit Suisse - Analyst*

Yes, Barry just a couple of follow-up questions. I guess one was I had forgotten ask is in terms of the approximate EBITDA mix in the current business and the approximate EBITDA mix in the growth outlook. And then also if there are any earn out provisions associated with the transaction?

Bill Davis - *Crosstex Energy LP - EVP and COO*

Hello John, it's Bill. The current revenue mix is about 75% crude and condensate and 25% brine handling. In the growth outlook, we see significant growth in both of those areas. As well as Barry mentioned the opportunity to compete in gas processing and gathering. So, we see those relative mixes for the near-term staying relatively stable as the business grows. Over time it's going to be a function obviously of what producers develop in the area.

John Edwards - *Credit Suisse - Analyst*

And then are there any other earn out positions?

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes, John, this is -- as it relates to the earn out, there is a component of the purchase arrangement where there is incremental dollars paid to the sellers in the event of usage of related to the rights-of-way. And so there is a potential incremental payment in that regard.

John Edwards - *Credit Suisse - Analyst*

And would that be in the form of units in Crosstex or would that be cash?

Barry Davis - *Crosstex Energy LP - President and CEO*

It's all cash and the way to think of it is it will be essentially an increment of any additional expansion capital that we invest in the business. There will be -- like you would normally see rights-of-way as part of construction costs. There is a component that would look like the right-of-way costs that we would pay back to the sellers. Because it was an asset that was hard to value on the front end, we've essentially treated it as a back end or a continued payment on use.

John Edwards - *Credit Suisse - Analyst*

Okay and then also, is there -- to what extent will the current owners of the business stay involved in the business? I guess.

Barry Davis - *Crosstex Energy LP - President and CEO*

Yes. John. There are -- let me first of all say that this is a privately owned business that was substantially owned by one particular owner or a family. And, there was only -- there is limited involvement in the family currently. They will continue to be involved. The current CEO Chairman of the business will be under contract with us and will be involved on a go forward basis as well as one of the other owners. There are a number, as you would expect, a number of the management members that owned interest in the business. They will all continue to be employed and will have a very important role in continuing to run the business as well as expanding the business.

John Edwards - *Credit Suisse - Analyst*

Okay and they'll be able to continue to maintain some kind of stake in the business?

Barry Davis - *Crosstex Energy LP - President and CEO*

Through their normal Crosstex's employment arrangements, yes they will have a stake. But it's 100% owned business by us now so it won't be a equity interest or incentive interest in the existing business.

John Edwards - *Credit Suisse - Analyst*

Okay. Fair enough. Thank you very much for the clarification.

Operator

At this time there are no questions queued. I'd like to hand it back to Mr. Barry Davis President and CEO.

Barry Davis - *Crosstex Energy LP - President and CEO*

Thank you Jeremy, and again thank you all for being on the call today. I think you'll agree with me that it's been an exciting several weeks here and months as we've put these projects together. We continue to be extremely excited about current operations as well as the over $600 million of expansion projects that we've got. That really represent a very diverse set of assets and expansions. All driven and supported by fee-based margin type arrangements. So, we're excited about the future. Continue to be excited about the present. And appreciate all the support that you guys give us. So until we talk to you again, thank you for being on the call and have a great day.

Operator

Ladies and gentlemen that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.
