THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XTEX - Q2 2012 Crosstex Energy, L.P. Earnings Conference Call

EVENT DATE/TIME: AUGUST 07, 2012 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jill McMillan *Crosstex Energy, L.P. - Director, Public & Industry Affairs*

Barry Davis *Crosstex Energy, L.P. - President & CEO*

Mike Garberding *Crosstex Energy, L.P. - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Gabe Moreen *BofA Merrill Lynch - Analyst*

Bernie Colson *Global Hunter Securities, LLC - Analyst*

Paul Jacob *Raymond James & Associates - Analyst*

T.J. Schultz *RBC Capital Markets - Analyst*

Sharon Lui *Wells Fargo Securities, LLC - Analyst*

Conor Ryan *Saba Capital - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2012 Crosstex Energy, L.P. earnings conference call. My name is Jeff, and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. (Operator instruction).

As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Ms. Jill McMillan of Crosstex Energy. And you have the floor, ma'am.

Jill McMillan - *Crosstex Energy, L.P. - Director, Public & Industry Affairs*

Thank you, Jeff, and good morning, everyone. Thank you for joining us today to discuss Crosstex's second-quarter 2012 results.

On the call today are Barry Davis, President and Chief Executive Officer, and Mike Garberding, Senior Vice President and Chief Financial Officer. Bill Davis, Executive Vice President and Chief Operating Officer, is not with us today because he had minor outpatient surgery and will be back in the office later this week. We wish Bill a speedy recovery.

Our second-quarter 2012 earnings release was issued early this morning. For those of you who didn't receive copies, they are available on our website at crosstexenergy.com. If you want to listen to a recording of today's call, you have 90 days to access the 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 statement. We will encourage you to review the cautionary statements and other disclosures made in our SEC filings, specifically those under the heading Risk Factors.

Before I turn the call over to Barry Davis, I want to mention an upcoming Crosstex event that I am sure you'll be interested in attending. On November 28, we are hosting a West Texas Permian facilities tour for analysts and investors in Midland, Texas. We will be visiting our installations in the Permian Basin, our Deadwood processing plant and our Mesquite rail terminal. Our management team will be available for discussion and questions during the event. Apache is scheduled to give an operation presentation as well.

We distributed invitations about the tour last week, and we urge you to respond quickly as space is limited. If you did not receive an invitation or want more information, please let me know.

I will now turn the call over to Barry.

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Thank you, Jill. Good morning, everyone, and thank you for joining us on the call today.

I will begin by discussing the commodity price environment and its effect on our second-quarter 2012 financial results and guidance. Next, I will cover how well-prepared we are to face this environment, and finally, I will discuss our positive outlook for our business. Mike will then go into more detail about our quarterly results and guidance, and I will wrap up with an update on the status of our growth projects, including our recent acquisition of Clearfield Energy and review our operational results.

First, let's look at results for the second quarter. The dramatic downturn in the commodity environment has impacted our current and near-term results. Adjusted EBITDA for the second quarter was $48.7 million compared with $55.4 million for the second quarter of 2011. Distributable cash flow was $23.4 million versus $32.9 million for the year ago quarter. If commodity prices remain at current levels, we expect to end the year at the lower end of guidance, adjusted for six months of Ohio River Valley operations or approximately $210 million to $215 million of EBITDA. The price impacts are in line with the sensitivity that we provided earlier this year, so there was really no surprise here.

In this scenario, our ability to raise distributions and dividends for the rest of the year will be challenged. Nevertheless, our annual growth rate would still represent an approximate 7% annual increase in distribution and an approximate 23% annual increase in dividends over 2011.

Looking ahead, 2013 is an important year for us when commercial operations from our growth projects such as Cajun-Sibon and Ohio River Valley will start to ramp up. We believe that after the commencement of Cajun-Sibon's commercial operations in 2013, we could see a return to distribution growth rates of 8% to 10% and dividend growth rates of 20% to 25%. The majority of the capital for these ventures will be spent during 2012.

Our great work has prepared us to face this commodity environment. We have made fee-based growth a top priority, and as a result, over 80% of our gross margins in the second quarter is not commodity price related. We have a strong healthy organization with the right people in place. We have diversified our business by expanding into new liquids-rich areas through our joint venture with Apache in the Permian Basin, our equity ownership in Howard Energy Partners in the Eagle Ford, and our Riverside crude oil and condensate logistics business in South Louisiana. These ventures are ramping up in their contributions and have broadened our business and expanded our capabilities, enabling us to create more value for our investors, despite the current commodity price environment.

Our long-term growth strategy remains intact and unchanged. I am proud to say that we have continued to successfully execute the plan we laid out for you earlier this year. As a reminder, our first strategic objective is to maximize the earnings and growth of our existing businesses, and we are accomplishing that. In North Texas, our strategic expansion in Benbrook and Fossil Creek provided strong results in the quarter. We have optimized and expanded our strategically positioned LIG system in Louisiana to link the LIG assets with our processing and NGL assets in southern Louisiana.

And in southern Louisiana, we converted terminalling operations to crude service and restarted the unit's fractionator, which plays a key role in the success of our Cajun-Sibon pipeline extension project.

Our second strategic objective is to enhance our scale and diversification, which we have accomplished through projects like our Cajun-Sibon natural gas liquids pipeline extension and Eunice fractionation expansion, our Riverside crude expansion and the recent acquisition of Clearfield Energy. These achievements have added a new geographic area to our asset base and expanded our service offerings, including giving us more exposure to crude and wet gas developments. We remain focused on this objective and believe this growth will allow us to overcome the current commodity price environment.

At the risk of sounding redundant, I will repeat our long-term outlook is bright. Our capital spending program of approximately $620 million in 2012 and 2013 is focused on fee-based projects that align with our long-term business plan. These projects will diversify the services we offer, further expand our presence in new geographic areas and build cash flow. Our focus on sound financial metrics and discipline has positioned us to take advantage of the many exceptional business opportunities in today's market. We remain committed to creating value for our investors while maintaining disciplined balance sheet management.

Now I will turn the call over to Mike Garberding who will discuss our second-quarter results in more detail.

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

Thanks, Barry. In the earnings release, you'll find reconciliations of certain non-GAAP items to their GAAP equivalents, which we will discuss today. Please refer to the earnings release for these reconciliations.

In addition, our 10-Q was filed this morning with the SEC, which you can access for more details on our results.

Barry gave a good summary of our current expectations for both the remainder of the year, as well as 2013. Assuming commodity prices stay at their current level, we expect to hold distributions and dividends flat for the remainder of the year. To give you some perspective, the price of ethane and propane has decreased approximately 55% and 40% respectively since the beginning of the year -- quite a drop in only six months. If you back to our latest commodity sensitivity table in our presentation, you can see an estimated annual 2012 commodity impact of between $20 million to $25 million, assuming prices stay at current levels. We have seen some rebound in prices, but have not seen any stability yet.

We have been talking a lot about how our growth strategically positions us in 2013. Our current slate of organic growth projects and the development of Ohio River Valley assets give us the opportunity for a step change in growth in 2013. We believe we are on track in executing these projects. However, these are development projects where the capital costs are being incurred today for fee-based business growth the following year. Our goal is to further reduce our commodity exposure through the development of solid fee-based projects like Cajun-Sibon Phase I.

Regardless of what happens to commodity prices, we believe we'll see a significant step-up in cash flows when Riverside Phase II and Cajun-Sibon Phase I begin operations in 2013. Also, the Ohio River Valley assets will have been under our management and operating for about a year, focusing on the growth in the Utica and Marcellus by that same time.

Turning to second-quarter results, we did see an approximate $10 million decline in EBITDA comparing the first and second quarters of this year. The partnership realized adjusted EBITDA of $48.7 million in the second quarter of 2012, a decrease of 17% from the first quarter EBITDA of $58.5 million.

The key drivers of the change between the quarters were the reduction in commodity prices and the $2.5 million of one-time items mentioned in the first-quarter earnings call.

Gross operating margin for the second quarter was $90.3 million, a decrease of $9.5 million from the first quarter of 2012. This was mainly related to the decrease in commodity prices as our weighted average natural gas liquid price decreased from $1.23 a gallon in January to around $0.84 a gallon in June. With approximately 80% of our gross operating margin coming from fee-based gathering and processing business this quarter, the contribution from commodity-based opportunities decreased to about $18 million from approximately $25 million in the first quarter this year. This decline impacted our current quarter distribution coverage ratio. However, we still maintained a 1.17 times coverage ratio for year-to-date distributions, and we expect to be in that range at year-end based on our current EBITDA guidance of $210 million to $215 million for the year.

From a balance sheet perspective, we have maintained a strong liquidity position. We currently have approximately $550 million available under our credit facility after our equity issuance in association with our Ohio River Valley asset acquisition.

We ended the quarter with a debt to EBITDA of 3.8 times. However that did not include the impact of the $250 million in new high-yield notes, which were in escrow at quarter's end and the Clearfield acquisition. If you pro forma the impact of the acquisition in the new notes, the estimated debt to EBITDA would have been around 4.5 times.

As I have mentioned in earlier calls, our debt to EBITDA will trend up during the construction of Cajun-Sibon, but it is not an issue with our current bank covenants of 5.5 times. The debt to EBITDA decreases rapidly when the project comes online at full volumes.

Our current projection for capital expenditures for the remainder of the year is approximately $178 million, mainly for Cajun-Sibon Phase I that is under construction. As we have mentioned in the past, we will continue to fund growth capital equally between debt and equity.

We have continued to add positions to hedge our commodity exposure in 2012 and 2013. Currently we have hedged approximately 96% of our target percentage of percent of liquid volumes and approximately 83% of our target percentage of processing margin volumes for the last two quarters of 2012.

We have also continued to add to our 2013 pages. To date we have hedged 99% of our target percentage of percent of liquids volume, as well as 35% of our target percentage of processing margin volumes in 2013.

As we have stated in the past, we only use product specific hedges in the forward-looking market. And just to remind you, we only hedged contracted volumes that we know are coming to us. Therefore, our target hedge percentage represents around 30% of our total 2012% of liquid volumes and approximately 10% of our total 2012 processing margin volumes.

Turning briefly to Crosstex Energy Inc., the Corporation had a quarterly and a cash balance of approximately $3.2 million, which will continue to grow as a portion the distribution receives each quarter is added to its cash balance. As we have said in the past, we don't currently envision the Corporation will pay any significant income taxes in the near future.

Now Barry will update you on our growth projects and operations.

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Thank you, Mike. I will begin the operations discussion today with an update on our recent acquisition of Clearfield Energy. This gives us a tremendous growth platform in the strategic Ohio River Valley and adds significantly to our capabilities that we can't utilize in other operational areas. By the way, from now on, you'll hear us refer to this business as our Ohio River Valley assets.

On July 2, we completed the acquisition, and the transition and integration is going as planned. We were excited about this area and the business and the people that joined us in this acquisition.

As I have stated previously, this acquisition positions us in the rapidly developing Utica and Marcellus Shale plays and provides us with a substantial growth platform in a new geographic area. It represents a significant addition to our crude and condensate business and our entry into saltwater disposal.

We also plan to take advantage of natural gas gathering and processing opportunities that we plan to develop in the area through the utilization of rights-of-way.

These assets give us a first mover advantage where we can quickly grow through more efficient utilization of the existing assets. As we mentioned, we believe that approximately $50 million in additional growth capital will give us the capability to achieve our financial plan for the business. Our first step is to expand our truck and terminalling infrastructure to handle near-term volume increases. Secondly, we will continue to evaluate long-term takeaway solutions throughout the system.

We continue to see activity ramp up in the Utica where producers are working to further delineate the oil and wet gas windows in a play. There are approximately 75 rigs currently drilling in close proximity to our Ohio River Valley assets, and year to date there have been 217 Utica wells permitted for drilling in Ohio. We are actively pursuing the development of these areas and expect that the Utica will be one of the largest oil and gas plays in the country. We see growing demand for our crude and condensate logistics businesses, as well as our saltwater disposal services.

While producers are just initiating their development programs in the area, many of them compare their expectations in the Utica with what they see in the Eagle Ford. As drilling expands in the area, we are well-positioned to leverage our existing trucking, pipeline, barge and rail terminals in brine water disposal facilities to capture a leading share of the business. In addition, we will use these assets as a platform for rich gas gathering, processing and transportation services.

Moving to operations in North Texas, gathering and transmission volumes were higher in the second quarter compared to the first quarter, and our processing plants remain full. The volume strength is due to rich gas drilling and wells coming on line with production rates better than forecasted.

As we have said in the past, we expect our North Texas gathering and transmission system volumes for 2012 to be flat compared with the average for 2011. As for 2013, if the current gas price environment continues, we could see declines in our North Texas volumes. We are having in-depth discussions with producers for a better understanding of their drilling plans and expectations for the play and will continue to update you as we learn more.

As this play matures, price outlook will have a big impact on volumes as producers choose where to spend development capital. But we expect our Barnett assets to provide relatively steady contributions to our results over the long term with little additional capital.

Moving west to the Permian Basin and our joint venture with Apache Corp., we started up the new Deadwood cryogenic plant in May. Volumes are building ahead of plan, and the plant, which has a current processing capacity of 50 million cubic feet of gas per day, is expected to be full by year end.

We continue to work with Apache on evaluating potential expansion opportunities for Deadwood due to growing volumes. Raw make volumes are growing at our Mesquite terminal in conjunction with gas production at our Deadwood plant. We are analyzing the long-term utilization of the Mesquite terminal, including possible NGL and crude transloading opportunities. We believe Mesquite's long-term value as a fractionation and crude transloading facility will be much greater than we realized when we put it into service.

We are also continuing discussions with several producers regarding additional gathering and processing needs in the area, which are driven by the extremely high level of activity in the area with more than 500 rigs currently drilling.

And in South Texas, we remain excited about our solid investment with Howard Energy Partners where we own a 30% interest in the Company as do GE Energy Financial Services and Quanta Services. We continue to see solid producer activity around the pipeline system, and Howard's midstream assets are performing as anticipated. The construction business bottom line services is significantly exceeding expectations. We are excited about the position of Howard's assets in the Eagle Ford and believe that the Howard team is making great progress on several growth initiatives around their assets.

Moving to Louisiana, let me first address a current operational matter. Recently a slurry filled sinkhole developed near our 36-inch pipeline in Bayou Corne. We isolated and shut in a portion of the pipeline because of the proximity of the slurry to our system. The shut-in will impact approximately 150 million cubic feet a day of supply to the river markets. We have notified our customers, and they have made arrangements to secure supply to avoid disruptions in the area.

At this time, we do not know how long the pipeline will be shut in, but we are continuing to monitor the situation and hope to have it resolved soon. We are still assessing the financial impact of the reduced throughput in potential repairs, but do not expect it to be significant.

Looking at second-quarter results, LIG's gathering and transmission volumes declined by nearly 100 MMBtu per day compared with the first quarter due to a contract exploration and firm transportation decline in North LIG. We continue to monitor producer activity in the Cotton Valley, Austin Chalk and Tuscaloosa Marine Shale for liquids-rich production opportunities that will benefit our LIG pipeline system.

E&P companies are especially active in the Tuscaloosa Marine where they have had early success in finding and producing oil but with limited associated gas production. We believe this play in particular could bring new business to LIG and PNGL, enhancing our gathering, processing, and fractionation volumes.

We also think there is significant potential for new production from the Deep Miocene that will require processing by our PNGL business, as well as transport and processing on LIG.

I'll talk a bit more about that in a minute.

We continue to explore possibilities for additional processing across the system, including bringing new gas supply to the Plaquemine and Gibson plants on LIG. We also have increased volumes through LIG to Pelican, which averaged about 360 million cubic feet of gas per day in the second quarter. We are always focusing on projects that will offer our customers options to move gas from north to south, linking our LIG assets with our PNGL business.

Moving to our processing and NGL business in southern Louisiana, volumes declined in the second quarter versus the first quarter due to the commodity price environment, which reduced runtimes at our plants, including Blue Water, Eunice and Pelican. These declines were offset by the success we have had in pursuing contracts related to deep water drilling in the Gulf of Mexico where there has been a resurgence in activity.

Miocene/Wilcox production in particular is having a favorable impact on both our PNGL and our LIG assets. This is driving new volumes at our Pelican gas processing complex. We are aggressively pursuing gas associated with deep water oil and ultradeep onshore shelf expiration projects. We are currently processing approximately 30 million cubic feet per day of deep Miocene gas production and expect to contract for another 35 million cubic feet per day by year end for a total of about 65 million cubic feet per day.

Ongoing incremental drilling and interconnections could further enhance our gas and NGL volumes in the coming months from these plays. We expect these volumes will substantially increase in 2013 subject to the installation of adequate treating facilities.

Our Eunice NGL rail expansion and Riverside NGL unloading project were completed in April, and market demand for NGL rail unloading and fractionation continues to grow. These projects will allow us to increase our rail and truck volumes from the Permian, Marcellus, Eagle Ford and other producing regions as the year progresses. We think we can increase volumes by an additional 5000 barrels per day of inbound supply at Eunice and Riverside, which could contribute another $3 million of EBITDA by year-end.

We are making great progress on our fee-based crude and condensate terminal business in southern Louisiana. We have completed Phase I modification of our Riverside facility for transloading crude oil from railcars to barges, which gives us the capacity to move approximately 4500 barrels of crude per day through Riverside.

We also are transloading condensate through our Eunice facility where we expect second-half 2012 volumes to increase significantly over the first half of the year.

Phase II of our Riverside expansion will increase our capacity to transload crude oil from rail cars to both barges and pipelines to approximately 15,000 barrels per day. Phase II will be operational in early 2013. We have entered into a long-term agreement with a large crude supplier in the region that supports this $16 million expansion, and we expect annual cash flows will be in the $10 million range once completed.

Turning to the Cajun-Sibon pipeline expansion, we have completed the long-term commercial supply contract for Phase I of our Cajun-Sibon natural gas liquids pipeline extension and Eunice fractionation expansion. We are making great progress in acquiring right of way and permitting for Phase I. We expect the facilities will be operational in the second quarter of 2013, and all activities are on schedule to meet this timeline.

We are optimistic that we can get the support we need to develop Phase II because of the strong interest shown by both midstream and producer customers. We are currently negotiating long-term commercial agreements for Phase II, which would provide additional capacity for 50,000 barrels per day. If implemented, Phase II would be completed in 2014.

Despite lower volumes in Phase I, Phase II could create greater EBITDA. The combination of Phases I and II would significantly increase our PNGL assets contribution to results by 2014. We have several follow-on expansions of our NGL business related to these projects that we are currently negotiating.

In closing, I would like to reiterate that we have a solid base business that is destined for growth. Despite the current weak commodity price environment, we continue to do what we said we would do. We are making great progress in our growth ventures that will come online next year and broadening our size and scope through our Ohio River Valley acquisition, and there are plenty of projects on the horizon that we are currently pursuing.

Our vision in 2012 remains unchanged. We will continue execute our strategy so we can be the best midstream energy solutions provider in the industry.

Now we will turn the call back to the operator, and Mike and I will be happy to answer your questions. Jeff, would you please take the call.

QUESTIONS AND ANSWERS

Operator

(Operator instruction). Gabe Moreen, Bank of America Merrill Lynch.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Good morning, everyone. It feels a little greedy to ask about Phase II at Cajun-Sibon after you just got Phase I lined up, but ask I will. In terms of your CapEx thoughts around that and I guess just sort of -- and I know the contracts are renegotiating, but you think you are expecting the possibility of something by year end in terms of Phase II?

And then related to that, I know, Barry, you had said about there's other ancillary expansion opportunities. Is that mostly frack expansion stuff, or what else were you referring to there?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Yes, first of all, let me say that when we begin Phase I, we had a vision at that time that there would be a Phase II, but it would be subject to seeing the market's response to the project.

What we have seen is a response that is actually greater than we anticipated. As a result, as we were negotiating market and supply contracts for Phase I, we were essentially simultaneously negotiating for Phase II. So we are well on our way to end those negotiations, and I think it is reasonable to have a very clear picture by year end as to what Phase (inaudible) -- what it will be.

As to its size, as I said, while it is a smaller -- while it is smaller in terms of capacity, we think it is potentially larger in terms of EBITDA contribution and would be at least similar in size to Phase I on the capital investment. It could be larger depending on the ultimate services that we negotiate to be provided.

So more to come. We are very encouraged by potential for Phase II. We think it is a great project, completes even further, if you will, a transformation of the PNGL business there in south Louisiana.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Got it. I will look forward to seeing more announcements. And then turning to the Ohio River assets, you had mentioned GNP opportunities potentially. I guess curious there about timing and also that $50 million in CapEx that you had been talking about spending on those assets. Whether that included GNP stuff or the GNP stuff would also be additive to that?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Yes, Gabe, again, we have been very encouraged by what we see as a perfect platform to provide an early mover advantage that we have there in the Utica play. But I would say I would emphasis the early. It is still very early in the play. Producers are still trying to figure out exactly what their development plans will look like. There actually have been a few unexpected disruptions, if you will, not the least of which has been an electricity issue that occurred there recently with storms that slowed down some production developments for a short period of time.

But our immediate focus -- let me just be very clear -- is to maximize the performance of that existing platform. We are working diligently to identify where we have to have expansions to debottleneck those assets, increase trucking capacity, increasing terminalling capacity to be responsive to the very near-term volume increases. We think that positions us best than to do the second phase, which we think will be providing infrastructure for longer-term takeaway capacity from this area.

And then, thirdly, if we do that well, we think that it will lead to opportunities with producers to do more than the crude and condensate services, but moving into what we have always done well and what we have always had great relationships to do, and that is the gathering, processing, and the NGL services needed for the rich gas development. But still very early in those areas, and I think it will be a two- to three-year development.

In regards to the $50 million investment, what we have emphasized is we think the $210 million acquisition price plus $50 million investment that we expect to make over the next couple of years will put us in a position to have a run-rate EBITDA contribution in the range of 5 to 6 times our investment at that point in time. We think the timeframe for that investment is, again, over the next 12 to 24 months with the ramp-up of cash flow in the 24- to 36-month period getting to a ballpark of $50 million of EBITDA.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Got it.

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

And the $50 million does not include any gathering and transmission. That would be separate and apart from that.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Got it. And then just lastly for me, I know there was an outlet for North Texas for 2013. I am not sure if you touched on that for LIG. Just was curious, I had a contract expire recently, but any expectations for contract expiries in LIG in 2013?

THOMSON REUTERS

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

Yes, as we noted in the script, we saw about 100 million cubic feet decline in our North LIG system. That is the combination about half combination of a contract expiration, as well as volumes declining under longer-term FT agreements where the service actually was not being utilized. We do have another increment of expirations in 2013 and then pretty much everything that remains after that has a much longer life to the contract term.

I think what we would like to do is come back and give you a little bit more color in the sometime between now and our next earnings release as to the shaping of those future contracts. But what we would emphasize is that with every contract that rolls off, really the remaining life of the contract actually extends. We still are over five years weighted average life of the remaining contracts, and at some point it will go well beyond five years because of the term left on kind of the longest term contracts out there.

But I think -- and in a subsequent call, I think we would like to give you a little more shaping as to how to think about the future declines there.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Okay. Look forward to that. Thanks.

Operator

Bernie Colson, Global Hunter.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Just a quick clarification. The $100 million on Lakewood was due to contract expiries, not the issue with the sinkhole that you mentioned?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Yes, in fact, let me be a little more clear on that. We had a contract that expired that was for about 40 million cubic feet a day for the Haynesville FT, and then the remainder of the $100 million was basically underutilized capacity under remaining FT agreements.

Let me just go to the sinkhole and just be clear, in case I wasn't clear before. That is a very recent event that occurred on Thursday, Friday of last week. It is an event involving a third party's operations related to a salt cavern. Our 36-inch pipeline happens to be near within 200 or 300 feet of where that salt cavern sinkhole occurred, and as a precautionary measure, we took the pipeline out of service, affecting about 150 million cubic feet a day to avoid any possible issues there. We are assessing if there was any damage to the pipe now, and we will have a better communication as to what we think the impact of that will be in the near term.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

So, for the time being, it has only been down about a week or so?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

It actually was taken down over the weekend.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Over the weekend. Okay. And then I wanted to clarify just some data that you provided on the NGL average weighted natural gas liquid to our gas price ratio. It looked like it was basically the same as it was in the first quarter, and realized weighted average natural gas liquids price was $1.04 to down a little bit. But just trying to mesh how those numbers fit into a $10 million gross margin decline sequentially.

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

What you see ultimately is that you really moved into April the first month of the second quarter with prices somewhat similar, but down as compared to January, but then you really saw a steep drop moving in the next two months. And during that timeframe, again like we said in the past, you do have somewhat of a higher component of ethane. So that to us becomes a higher hit, especially with the change in ethane price we saw.

So the averaging makes it look better, but when you look over months in that quarter, you can then see the drop.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Okay and then -- yeah, sorry.

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

Yes, I was going to say because you get to an ethane price really in June of the quarter around $0.29. That was over $0.60 in January.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Okay. And then I was just looking at -- you referenced your commodity price sensitivity charts and the gross margin from total total POL and PM contracts, if you look at that NGL to gas ratio, that is around that $4.85 bucket that you have there and kind of reference over the $2.50 to $3.00 natural gas range, I mean it looks like a yearly impact of somewhere between $6 million and $8 million. I'm sure I am using this wrong, but how is -- how does the $6 million to $8 million impact translate to $10 million quarter over quarter is all I am trying to figure out?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

We can walk you through again after the call, but what it really looks to is, what is your view for the total year, and how do you average it in the first half of the year versus what the market expects in the latter half? So, if you stay around the current price forecast for the latter half, what you see is you see that NGL gas ratio come down, but then you also see our weighted average liquid price come down.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Okay. All right. (multiple speakers). So it is, again, a function of end of the quarter being a bit weaker than the beginning of the quarter. There's some of that dynamic in there as well?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

Yes.

Bernie Colson - *Global Hunter Securities, LLC - Analyst*

Okay. Thank you.

Operator

Paul Jacob, Raymond James.

Paul Jacob - *Raymond James & Associates - Analyst*

Good morning. On your Ohio River Valley assets, just curious as you look over the next 12 to 24 months, that 5 to 6 times your investment that you talked about, does that include the $50 million of additional growth CapEx?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Yes, it does.

Paul Jacob - *Raymond James & Associates - Analyst*

And then kind of more a housekeeping question. Given the fact that you had $250 million in escrow for the quarter, that debt note, how should we be thinking about interest expense over the coming quarters? I mean did interest expense this quarter not include anything from that note or --?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

It did. It included basically interest from that note from issuance on which was really the midpoint of May. So you can annualize that difference to think about it. So you had it really from half of May into June.

Paul Jacob - *Raymond James & Associates - Analyst*

And then lastly, just thinking a little bit more about the fee-based component of your gross margin. You know, over the past several years, that has been growing. I think it was 12% of your overall gross margin pie a few two years ago, and now it is about 15%. Could you just talk a little bit about how you think about that going forward? I mean are you targeting a certain mix of fee-based processing, or does that just shape out based on the market?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

We continue to look at contracts that renew and determine what is the best structure for contracts, and typically that -- we'd like some portion of fee-based and some portion of commodity-based to take advantage of the commodity. So we do focus on that and have increased that.

But from a standpoint of, where you see the business on a go forward basis, the mix between the three probably is in the general range of what you will see going forward with processing margin expected to decline just given the price environment.

Paul Jacob - *Raymond James & Associates - Analyst*

Great. Thank you.

Operator

T.J. Schultz, RBC Capital Markets.

T.J. Schultz - *RBC Capital Markets - Analyst*

Good morning. Just, I guess in the Permian, at the Mesquite terminal, as you analyze the NGL and crude transloading, it sounds like indications of better potential here than you initially thought. Can you just comment on the size and scope of the opportunity and when you expect some of this to materialize?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Yes and we started with pretty low expectations there because we basically had the Mesquite terminal slated to provide the service needed there until we saw the NGL pipelines ramp-up coming from the Permian to Mont Belvieu. And so and really all of our forecasting and the way we evaluated the project, we assumed that it would be taken out of service or have little value after that.

Well, what we are finding now is that we do think it is going to become a good place for transloading of crude for shipment either into our facilities in south Louisiana or to other places because of its proximity to the buildup of volumes, as well as we think there is going to be a regional, kind of local fractionation opportunity in that area for NGLs. So we are just really seeing that it has a longer-term value than our original pretty conservative view.

T.J. Schultz - *RBC Capital Markets - Analyst*

Okay. Fair enough. Thanks. I guess just moving over to the Ohio Valley, just following up. As the Utica continues to develop, can you just provide any more color there on maybe how you are able to defend the first mover advantage that you talk about, what you are seeing from new entrants trying to capitalize on some of the crude logistics or just any color on the competitive environment right now?

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Well, certainly it is going to be competitive, and we are seeing the emergence of other players there like you do in all of these plays.

But, again, we think that this business having been there and established for the last hundred years, but particularly in the last several years, it has the relationships with the producers. We think we can step into that position, continue to expand the services and do a good job to maintain the business, and so it is really -- it is as simple as that. We think that we have a position to defend, and we are confident that we will be able to defend that and expand the facilities as necessary to meet the producers' objectives.

We are, quite frankly, currently seeing a slower development, which could be a benefit to us. You know a slower development will allow us possibly to maintain even a larger market share than if we were to see a big ramp-up, an immediate ramp-up that created the need for others to step in. So we like the way it is evolving so far.

Operator

Sharon Lui, Wells Fargo.

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

Good morning. Just looking at the low end of your EBITDA guidance for 2012, that implies a similar EBITDA for the second half of the year relative to the second quarter. Just thinking in terms of, I guess, commodity pricing, you have really seen a decrease in NGL prices only for half of that quarter. I just trying to reconcile why the EBITDA levels would be relatively flat with Q2?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

On a go forward basis?

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

That's correct.

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

So, if you think about a go forward basis, I mean the key changes to the business really are going to be the continued ramp in the Permian assets. So you see a growth in that like Barry mentioned just as the plant is filled up. And also in the PNGL business, you see really the utilization of the terminalling increase quite a bit that we mentioned both on Riverside and Eunice from the crude and NGLs. So you'll see the additional growth projects we didn't start filling in around the weak commodity prices.

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

Okay. Great. That's very helpful.

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

I would -- just do the math. I mean, as we have said, our current expectation is the $210 million to $215 million range. Year-to-date we are a little over $103 million.

So I mean if you look at that, we do have an expectation of some recovery or ramp-up of EBITDA in the second half compared -- as compared to the second quarter. And so those are the things I think Mike speaks to is, is in a perfect world, we would have seen the ramp-up of these various projects, and there are a number of them that we have highlighted here. We would have seen those precede any downside that we saw -- would have seen in commodity prices. But the reality is we saw commodity price destruction, if you will, before we completed the ramp-up in these volumes that will replace some of that commodity price sensitivity with fee-based income. So we feel good about the second half and the ramping up of those projects.

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

That is very helpful. And then turning to the debt balance and your projected debt to EBITDA ratio, do you feel comfortable with those levels relative to the covenants given the --?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

As I mentioned in the script, I mean if you do a pro forma, you are at 4.5 times for this quarter, and you will continue to see the business build through the year-end. We think you will remain around that same level. So the comfort we have is knowing the projects that are coming on are fee-based and fully contracted. So when they come on, they come on at 100% contribution margin. So that is what gives us comfort of raising a leverage for a near-term. From a covenant standpoint, like I mentioned, our covenant is 5.5 times. We don't feel we are anywhere near that.

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

Great. Thank you, Mike.

Operator

(Operator instruction). Conor Ryan, Saba Capital.

Conor Ryan - *Saba Capital - Analyst*

I was just curious, how many equity gallons did you sell in the quarter?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

On total equity gallons? It was -- I will get you an exact number. I don't have it off hand, but it was below what we had forecast in the last presentation for both POL and processing margin. But we will (multiple speakers) to that.

Conor Ryan - *Saba Capital - Analyst*

And is there any way that you can maybe put that out in the release going forward?

Mike Garberding - *Crosstex Energy, L.P. - SVP & CFO*

Yes, we will look at that. We will update -- as we always do, we will update the table of four projections of gallons like we do in the next investor presentation.

Conor Ryan - *Saba Capital - Analyst*

Okay. Great. Thanks a lot.

Operator

Ladies and gentlemen, since there are no further questions, I would now like to turn the call over to Mr. Barry Davis for closing marks.

Barry Davis - *Crosstex Energy, L.P. - President & CEO*

Thank you, Jeff. And, again, thank you to all of you on the call for your time today and for participating in our update here. We do thank you also for your support. We look forward to communication with you as we continue to make important and strategic progress in our plan and the development of our business.

So we will talk to you soon. If we don't see you before, we'll talk to you in the next quarter release. Thanks 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 wonderful day.