FINAL TRANSCRIPT

Thomson StreetEvents℠

XTEX - Q1 2011 Crosstex Energy LP Earnings Conference Call

Event Date/Time: May. 06. 2011 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jill McMillan
Crosstex Energy, L.P. - Manager of Public and Industry Affairs

Barry Davis
Crosstex Energy, L.P. - President and CEO

Bill Davis
Crosstex Energy, L.P. - EVP and CFO

CONFERENCE CALL PARTICIPANTS

John Edwards
Morgan Keegan & Co., Inc. - Analyst

Sharon Lui
Wells Fargo Securities - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2011 Crosstex Energy earnings conference call. My name is Kiana, and I will be your Operator for today. At this time, all participants are in listen-only mode and later we will conduct a question-and-answer session. (Operator Instructions) 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. Please proceed.

Jill McMillan - *Crosstex Energy, L.P. - Manager of Public and Industry Affairs*

Thank you, Kiana, and good morning, everyone. Thank you for joining us today to discuss Crosstex first-quarter 2011 results. On the call today are Barry Davis, President and Chief Executive Officer, and Bill Davis, Executive Vice President and Chief Financial Officer. Our first-quarter 2011 Earnings Release was issued early this morning. For those of you who didn't receive a copy, it is available on our website at www.crosstexenergy.com. 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 advise 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.

I will now turn the call over to Barry Davis.

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

Thank you, Jill. Good morning, and thank you all for joining us on the call today to discuss our first-quarter 2011 earnings. We'll also discuss the state of the industry and opportunities we believe we have in this environment. I'd like to begin by highlighting what we've achieved over the past few months.

One of our major accomplishments was a substantial increase in our quarterly cash distribution and dividend rates during the quarter. This increase is due to the continued growth of our underlying business and our confidence in our future growth. As we recently announced, we raised the distribution on our common and preferred units from $0.26 to $0.29, and the dividend on our common shares from $0.08 to $0.09, a 12% increase for each security.

During the quarter, we also completed two sizeable gathering system expansion projects in the Barnett shale in North Texas and the restart of our fractionator at Eunice in south-central Louisiana. We completed all of these projects on time and under budget. Over the last 24 months we've invested more than $200 million in bolt-on high-growth expansion projects with more than a 30% rate of return. We expect continued improvements in our earnings as a result of incremental investments in our existing assets.

As I mentioned at our recent analyst meeting, we have two overarching objectives in 2011. The first is to maximize the Company's earnings and growth from our existing businesses. And the second is to grow our business beyond our existing core assets to increase scale and diversification. Related to our first objective, we are off to a great start and pleased with our first-quarter results, which mark the 9th consecutive quarterly improvement in earnings from our existing assets and operations. For the quarter, adjusted EBITDA was $53.6 million, up 22% from the first quarter of 2010. Distributable cash flow was $30.9 million, a 75% increase over the same period last year.

As for our second objective, we are very focused on growing beyond our existing assets. We are currently working on many opportunities to develop or acquire assets that are synergistic with our existing assets or that provide a point of entry into new geographic areas or services.

I have mentioned before that certain studies indicate that $6 billion to $10 billion will be invested annually to provide pipeline and other midstream infrastructure as producers develop the rich gas and crude shale plays across the United States. We are well-positioned and have many strategic advantages to grow our business successfully in this environment. Financially, we have the capacity to take advantage of these growth opportunities. Earlier this week we completed an amendment and extension to our bank credit agreement that will further enhance our ability to execute growth. Bill will explain more about this later in the call.

Turning to operations, throughput on our North Texas pipeline in the first quarter 2011 averaged approximately 352,000 MMBtu per day. This rate compares to 333,000 MMBtu in the fourth quarter of 2010. Throughput on our North Texas gathering systems was 702,000 MMBtu per day in the first quarter of 2011, compared with 711,000 MMBtu in the fourth quarter of 2010.

Our volumes during the quarter were impacted by the near-record low temperatures during the first 10 days of February. Since the beginning of April, we've experienced strong volume growth on our gathering and processing systems due to the completion of 2 gathering system expansion projects that I mentioned earlier. Our current throughput is approximately 850,000 MMBtu per day, an increase of approximately 20% over gathered volumes in the first quarter.

We refer to these projects as Benbrook and Fossil Creek. We expect these projects to contribute approximately 100,000 MMBtu per day to our North Texas gathered volumes in 2011, with a peak flow rate projected to be 150,000 to 175,000 MMBtu per day in 2012. Overall gathered volumes are expected to be greater than 800,000 MMBtu per day this year. Benbrook and Fossil Creek represent the type of low-cost, high-return opportunities created by the strategic position of our assets.

On the processing side, our plants processed 214,000 MMBtu per day in the first quarter of 2011, versus 206,000 MMBtu in the fourth quarter of 2010. We are currently running at approximately 290,000 MMBtu per day after the Benbrook and Fossil Creek expansions.

Our North Texas assets are comprised of over 700 miles of gathering pipelines and three processing plants with capacity of almost 300 million cubic feet per day, and are primarily located in what has proven to be the core of the Barnett shale. We expect continued improvement of cash flow from our operations in the Barnett due to ongoing optimization and increased efficiencies of these assets. And we believe there will be continued development by producers around our assets where we've invested over $1 billion in the infrastructure over the last five years.

Moving to Louisiana, in the first quarter of 2011, throughput on our LIG system averaged approximately 938,000 MMBtu per day versus approximately 921,000 MMBtu for the fourth quarter of 2010. The higher volumes were due to our increased capacity to move volumes through the system for processing, the result of the interconnect between LIG's Gibson plant and the Pelican plant in southern Louisiana. Movement of volumes from Gibson to Pelican also accounted for a decline in LIG processing volumes from 276,000 MMBtu per day in the fourth quarter of 2010 to 258,000 MMBtu in the first quarter of 2011. These volumes are now represented in the PNGL segment data.

Our LIG Pipeline system is one of the largest, most strategically positioned intrastate pipelines in the state. We provide 465,000 MMBtu per day of fully contracted takeaway capacity for gas from the Haynesville shale with a volume weighted average remaining contract life of 5 years. But LIG is not just about the Haynesville. We also have exposure to multiple active plays including the Cotton Valley, Austin Chalk, and Tuscaloosa shale. There is a lot of recent activity around these plays by producers targeting liquids-rich production. On the market side, we offer producers great optionality and access to a variety of interstate and intrastate markets, making LIG a preferred system in Louisiana.

Our LIG System is well-positioned to provide us with steady, profitable and reliable business, and significant growth projects and opportunities to take advantage of the current strong processing economics. In southern Louisiana, we are seeing strong results from our processing and NGL business. This is primarily due to significant operational improvements, strong volume growth and higher processing margins.

First-quarter 2011 processing volumes were 921,000 MMBtu per day compared with 840,000 MMBtu per day in the fourth quarter of 2010. The increase in volumes was largely due to the increased opportunity processing that we've seen in the first quarter. NGLs fractionated during the first quarter 2011 increased to 1.132 million gallons per day from 885,000 gallons per day in the fourth quarter of 2010, primarily the result of increased NGL production related to processing opportunities, and a new third-party gas plant supply of NGLs. We are encouraged by the near term optimization and growth opportunities for this business because we have great flexibility to increase the utilization of our assets.

We see a growing need for fractionation and NGL marketing as producers make liquids-rich production a priority. This need is primarily driven by gas produced from developing liquids-rich shale plays including the Eagle Ford, Granite Wash, Marcellus, Bakken and Permian Basin. These areas have limited NGL markets, and the infrastructure has yet to be developed. We offer producers in these regions interim solutions by transporting their NGLs via truck, rail and barge to our Louisiana fractionators. We are currently handling truck and rail volumes of approximately 2,000 barrels per day from the Marcellus, and about 6,400 barrels per day from other sources. We expect our truck and rail volumes to grow in 2011 as producer activity increases in these plays.

As I mentioned earlier, we restarted our Eunice fractionator in south-central Louisiana in early April at an initial capacity of 15,000 barrels of NGLs per day. We can add capacity at this facility as supplies increase. We're in the process of adding the capability to deliver overflow volumes of raw make from Riverside to our Plaquemine plant for fractionation. We are also making other changes to increase our capacity to handle raw make and continue to look for additional business opportunities across our entire Louisiana system.

In the Gulf of Mexico, activity is finally beginning to rebound. In mid-April, there were 33 rigs working in shallow water offshore Louisiana and an additional 16 working in the deep water. Most of the rigs are in the areas that feed pipe lines and processing plants near our systems. And as of April 18, 10 deep water drilling permits have been approved. Our PNGL assets are very well positioned to take advantage of this recovery in offshore drilling in the Gulf of Mexico.

In summary, we believe the development of liquid-rich plays will lead to more opportunities to better utilize our processing and NGL facilities. These assets are ideally situated near the Louisiana petrochemical and refining markets. Now I'll turn the call over to Bill who will discuss our first-quarter 2011 financial results in detail.

Bill Davis - *Crosstex Energy, L.P. - EVP and CFO*

Thanks, Barry. Good morning, everyone. Thanks for joining us this morning. In our Earnings Release, you'll find reconciliations of certain non-GAAP items, which we'll discuss on the call today, to their GAAP equivalents. Please refer to the Earnings Release for these reconciliations. In addition, our 10-Q will be on file this morning with the SEC, which you can access for more details on our results.

As Barry said, we're pleased with our results for the first quarter of 2011 as we continue to strengthen our balance sheet and delever each quarter. We had strong cash flows in the quarter just completed, and ended the quarter with our debt to EBITDA just under 4 to 1. So great improvement there. And we have approximately $400 million of available liquidity on our newly restructured credit facility, which I'll discuss in a moment.

We increased our cash distribution to $0.29 per unit and the dividend to $0.09 per share, each a 12% increase from the prior quarter. We set our distribution based on an analysis of the actual results of the business, the sustainability and growth of the distribution based on our business outlook, and our continued ability to reduce leverage with distribution coverage of almost 1.6 times.

Turning to the first-quarter 2011 results, the partnership realized adjusted EBITDA of $53.6 million compared with $43.8 million in the same period of 2010. As Barry said, an increase of 22%. Gross operating margin for the first quarter increased to $89.8 million compared with $81.2 million in the first quarter of 2010. Margins from our gathering and transmission assets increased, and processing economics continue to be good as evidenced by the strength of natural gas liquids prices and the NGL to gas ratio.

We had a weighted average NGL price of $1.19 a gallon during the first quarter of 2011 compared to $1.08 in 2010. Non commodity based margins, which include gathering and transmission, as well as fee-based processing and fractionation, were basically flat at approximately 70% of our total business. Frack volumes continue to grow, up over 20% from Q1 2010 to Q1 2011.

First-quarter 2011 operating expenses decreased $1.4 million to $25 million from the first quarter of 2010, primarily the result of normal fluctuations in repair and maintenance costs. General and administration expenses were $11.8 million for the three months ended March 31, compared to $12.7 million for the same period last year, a decrease of $900,000 largely due to lower professional fees and service costs. Interest expense decreased to $19.8 million in the first quarter from $26.9 million in the first quarter of 2010. The decrease was primarily due to reductions in our outstanding debt balances, expenses related to interest rate swaps recorded in 2010, and reduced rates on our credit facility and senior notes between the periods.

Our borrowing rates were reduced by amendments to our credit facility and the retirement of our senior secured notes in mid-February 2010 with the proceeds from the issuance of our new senior unsecured notes.

As I mentioned earlier, we have completed an amendment of our revolving credit facility, creating an improved long-term capital structure and increased financial flexibility. We added an additional $65 million of availability with a two-year extension of the agreement and a reduction in the pricing grid of 100 basis points. The new five-year, $485 million senior secured credit facility is due May 2, 2016. This amendment shows our bank support and their confidence in our future growth strategy.

We've also continued to add commodity hedges to hedge our percentage of liquids contracts and processing margin contracts. For 2011, we've hedged over 75% of our hedgeable volumes for our percentage of liquids, and over 60% for our hedgeable processing margin volumes. We continue to look at our hedges for 2012 and have begun to layer in hedges for both our percentage of liquids and processing margin contracts.

At the current time, we've hedged approximately 29% of our target percentage of liquids volumes for the year 2012, and approximately 50% of our first-quarter and second-quarter 2012 processing margin contracts. At this time we haven't hedged any of our third- and fourth-quarter 2012 processing margin volumes. As you know, we only use product-specific hedges in the forward liquids markets.

Moving to taxes, the Partnership's actual results for 2010 should generate a tax shield of approximately 60% of the distribution. And based on our guidance, we expect the 2011 tax shield to be approximately 90%.

Turning briefly to Crosstex Energy, Inc., the Corporation had a first-quarter 2011 ending cash balance of approximately $5 million with no debt. The Corporation has declared a dividend of $0.09 per share, as we've said. 100% of the dividends paid by the Corporation in 2010 were considered a return of capital. And our current expectations are that 2011 dividend payments will also be 100% return of capital. Now I'll turn the call back to Barry.

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

Thank you, Bill. As I said in the beginning, we are very pleased with our recent results. I think it's also clear from our discussion on today's call that there are great opportunities for Crosstex in the current industry environment. We've restored our financial and organizational strength, positioned ourselves for growth, and are actively pursuing the right business objectives and projects.

We will continue to operate our existing assets extremely well. We have excellent relationships with our customers, investors and other stakeholders, and believe this sets us apart from others and makes our ability to serve second to none.

We're focused on growing both organically and through acquisitions, especially beyond our current asset base. We are working with a strong sense of urgency while maintaining an appropriate discipline in our efforts to achieve the desired growth.

Looking to 2011 and beyond, our vision is to be the best midstream energy solutions provider for our customers, and to maximize value for our investors. Now we'll turn the call back to our Operator, Kiana, and Bill and I will be happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Edwards.

John Edwards - *Morgan Keegan & Co., Inc. - Analyst*

Yes, good morning, everybody. Nice quarter. You mentioned, I think Barry, you mentioned, that you restarted Eunice in early April. I think you said 15,000 barrels a day capacity. I'm just curious, what kind of volumes are you seeing there now?

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

Yes, John, as we've described in the past, our expectation is still the same. We've got some volumes that are currently moving over to Eunice just to balance Riverside and Plaquemine and the Eunice facility. Our volume increase that really drove the restart, the first wave is expected to be in June and then we'll see an additional wave late in the summer in August. In total, we expect the current run rate for those volumes to be right at about 10,000 barrels per day, so roughly two-thirds of the volume expansion, which leaves us some capacity for the other things that we're working on and any additional capacity we can get from restarting additional trains there at Eunice.

John Edwards - *Morgan Keegan & Co., Inc. - Analyst*

Okay, great. And Bill, you were talking about, on your hedgeable volumes, 75% hedgeable volumes for 2011. I missed what you were saying about 2012.

Bill Davis - *Crosstex Energy, L.P. - EVP and CFO*

Well we're still working on 2012. What we've got hedged right now for our percentage of liquids in 2012 is about 29% of our targets. And for the first two quarters of 2012, we've got about 50% on our processing margin with nothing hedged on the processing margin in the third and fourth quarter of 2012.

John Edwards - *Morgan Keegan & Co., Inc. - Analyst*

Okay, great. And then also you made a comment about the tax shield, I think. 90% in '11 and then you made a comment for '12 and I missed that.

Bill Davis - *Crosstex Energy, L.P. - EVP and CFO*

No, I said it was about 60% in '10 and we think it's going to be about 90% in '11. I didn't comment on '12.

Operator

(Operator Instructions) Sharon Lui with Wells Fargo.

Sharon Lui - *Wells Fargo Securities - Analyst*

Hi, good morning. A question about your volumes, looking at PNGL, trying to figure out how much of the volumes were diverted from LIG during the quarter?

Bill Davis - *Crosstex Energy, L.P. - EVP and CFO*

It was about 50 million a day going into Pelican from Gibson.

Sharon Lui - *Wells Fargo Securities - Analyst*

Okay. 50 million a day. And then looking at the volumes for the North Texas pipeline, which seem to have a pretty nice increase during the quarter, was that driven by the cold weather? Is that what you said?

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

Actually, Sharon, we had a slight decrease of about 9,000 MMBtu per day in first quarter over fourth quarter. But what we had happening during the quarter was a strong increase that now has us substantially higher than that, up to about 850,000 MMBtu per day. That is the result of those two new projects coming on. We didn't give a number as far as the impact from the weather, but it was a slight decrease in the first quarter as a result of the weather.

Sharon Lui - *Wells Fargo Securities - Analyst*

Okay. That refers to I guess the gathering. I was asking more in terms of the transmissions volumes, the 352,000 MMBtu?

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

Yes, solid volume growth quarter-over-quarter, fourth to first. But really, I don't think there was an explanation for it. We shouldn't have been impacted there at all really by the weather.

Sharon Lui - *Wells Fargo Securities - Analyst*

Okay, great. And a question in terms of your distribution guidance for the year. I think it's $1.20 for the Partnership. Given what you declared in the first quarter and the anticipated ramp up in cash flows starting in the second quarter, can your guidance be conservative? Or any thoughts in terms of revising that guidance?

Bill Davis - *Crosstex Energy, L.P. - EVP and CFO*

I think we gave a range of guidance with $1.20 being the upper end of the range. If we see that that's going to be substantially incorrect, we'll evaluate the need to issue new guidance later this year.

Sharon Lui - *Wells Fargo Securities - Analyst*

Okay great. Thank you.

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

Okay. Thank you. We understand that there are no further questions, so we want to thank you for being on the call today. Again, we're very pleased to deliver a great report to you. We look forward to continuing great results and communicating with you next quarter. So thank you. Have a great day and a great weekend.
