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PRESENTATION

Operator

Good day, ladies and gentlemen, welcome to the Crosstex Energy conference call. My name is Kiana and I will be your coordinator today. (Operator Instructions). As a reminder, today's call is being recorded. I would now like to turn the call over to your hostess for today. Miss Jill McMillan of Crosstex Energy Services. Please proceed.

Jill McMillian - *Crosstex Energy LP - Manager of Public & Industry Affairs*

Thank you, Kiana, and good morning everyone. Thank you for joining us today to discuss Crosstex's third quarter 2011 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 third quarter 2011 earnings release was issued early this morning. For those of you who did not receive a copy, it's available on our web site at 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 web site.

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 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. I will now turn the call over to Barry Davis.

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

Thank you, Jill. Good morning, everyone, and thank you all for joining us on the call today to discuss our third quarter 2011 results. I want to begin by outlining the areas we will focus on during today's call. First, we will provide an overview of our third quarter results and expectations for the remainder of the year. Next, we will give you an update on our growth projects and finally, we will discuss how we think about our distributions and dividends and provide some thoughts around growth.

Moving to our third quarter results, adjusted EBITDA for the quarter was $50.1 million, and distributable cash flow was $25.8 million. This compares with adjusted EBITDA of $47.8 million and distributable cash flow of $22.6 million for the third quarter of 2010. So we had solid year-over-year growth. At this time, we anticipate fourth quarter EBITDA and DCF to be about flat with the third quarter.

Our core assets continue to provide us with a strong cash flow platform and our growth projects come online beginning in 2012. We maintained the quarterly distribution at $0.31 per unit, and the dividend at $0.10 per share. We expect these rates will remain flat through the fourth quarter of 2011, prior to the growth projects starting up in 2012.

With the temporary operational challenges and the continued contribution from the commodity-based opportunities, we kept the distribution and the dividend flat in the third quarter at $0.31 and $0.10 a share respectively. This still represents a year-to-year date -- a year-to-date increase in distributions of approximately 19% and dividends of approximately 25%.

Our distributions so far this year have put us in a position to exceed the top end of our distribution and dividend guidance. It's important for you to take away that we remain committed to distribution growth while maintaining disciplined balance sheet management. Because of the importance of distributions and dividends, Mike will go into greater detail regarding our plans and the process we go through to set them. However, I want to emphasize that we set them at a level we believe is appropriate given the results of the quarter and forward projections and not with a motive of quarter-by-quarter increases which are not justified by actual results.

Before I give an update on growth projects, I want to discuss the current industry environment. As you know, there's been significant activity in our industry sector this quarter. We think this indicates great optimism that the natural gas industry will continue to grow, and highlights the value of our franchise positions in north Texas and throughout Louisiana as well as our capabilities to provide infrastructure and services in new basins. Today's market price for natural gas is about $3.50 per MMBtu, with expectations that we will remain in this range for some time.

Crude has been trading around $90 per barrel with weighted average natural gas liquids prices trading around $1.35 per gallon. The relative low gas price compared to crude and NGL prices has forced a shift to rich gas and crude. And the oil and gas rig counts in North America tell the story. The oil rig count as of October 28 th was at 1,078 rigs, up 55% from a year ago. Gas rigs numbered 934, as of the same date, down about 3% from a year ago. More than half of the total rigs working were drilling for oil.

We have also seen a migration of gas rigs to liquids rich plays, from dry gas areas due to current low gas prices. The need for midstream infrastructure and services remains strong. Recent studies forecast that approximately $8 billion will be invested annually over the next 25 years to provide pipeline and other midstream infrastructure as producers develop the rich gas and crude shale plays across the US.

Crosstex is extremely well positioned to participate in this growth. We have several strategic advantages that will facilitate this growth for us. We have well positioned assets and scalable systems and processes. We have extensive experience going back almost 10 years with large shale play developments. We have solid NGL capabilities including excess fractionation capacity.

We also have assets that can be utilized for crude terminaling and blending, with rail, truck and barge access in key NGL and crude markets. And we have extensive long-term producer relationships and top quality customer service. During the quarter we continued to make progress on our growth projects in the pursuit of our over-arching goal of increasing scale and diversification. We expect to begin realizing income from these projects beginning in 2012 and I will discuss each of these projects to update you on where we stand and outline the benefits we expect to realize.

Starting with our Permian project, this area is one of the hottest areas in the country with over 400 rigs operating. Our joint project with Apache Corporation is exactly the type of investment opportunity we have been targeting to expand into new areas. As a reminder, we each hold a 50% interest in the $85 million gas processing project in Glasscock County in the Permian Basin in West Texas which we refer to as the Deadwood plant. We are on schedule to have the initial phase of the project operational in the first quarter of 2012. Additionally, we expect a cryogenic gas processing facility to be operational in the second quarter of 2012.

Separately, our recently acquired Mesquite terminal which is connected to the Chevron West Texas NGL pipeline is being refurbished, expanded and modified to receive NGLs by pipeline and deliver NGLs and other products to pipeline to Mont Belvieu and by rail to our Eunice facility in south central Louisiana for fractionation and sales. This facility will support our Deadwood plant and provide much needed NGL take away from the Permian Basin play. We continue to work with customers in this region to secure additional volumes for our gathering, treating and processing business. We are on schedule to begin operating the Mesquite terminal in the first quarter of 2012.

Moving to the Cajun-Sibon NGL pipeline extension and Eunice fractionator expansion; this project includes a 130-mile of our Cajun-Sibon pipeline that will originate from the interconnections to major Mont Belvieu pipelines. From the Mont Belvieu area, it provides connectivity to our NGL fractionation facilities in southern Louisiana. The extension will have an initial capacity of 70,000 barrels per day. The project also includes the expansion of our Eunice, NGL fractionation facilities from 15,000 barrels to 55,000 barrels per day, which will increase our interconnected fractionation capacity in Louisiana to approximately 97,000 barrels per day in total.

This project is the ideal foundation for expansion of our integrated NGL system and optimization of our assets. It creates great optionality for our Louisiana assets with the ability to take advantage of the increasing demand for fractionation and NGLhandling as producers pursue developing liquids-rich natural gas shale plays. We will now be able to offer midstream and producer customers an integrated NGL transportation, fractionation and marketing alternative to Mont Belvieu.

The estimated capital for this project remains at $180 million to $220 million. We launched this project with the execution of the long-term ethane sales agreement which provides a secure market for the key product in the project. On the supply side, we are pleased with our firm commitments and have verbal commitments which we expect to have definitive agreements on by the end of the year. We believe we have the support we need to move forward with this project.

You might have seen the news release we issued on September 14th in relation to this project which announced an open season for volume commitments for interstate common carrier transportation service on this new pipeline. This was simply part of the process and we're pleased with the results. We will provide updates as the project moves forward and right now we are on schedule, targeting a commencement date in the first half of 2013.

Our crude oil terminal project is another low-cost, high return opportunity that helps us create more value from our existing assets. It puts us in a position to take advantage of today's crude pricing differentials by providing quick assess to the premium Louisiana market. Regional infrastructure bottlenecks have created a substantial differential to the Louisiana Gulf Coast crude. Louisiana light sweet markets have benefit the Crosstex physical asset position.

Currently we are modifying our facilities at our Eunice and Riverside fractionators for use as crude oil terminals and expect this work to be completed by year end. Eunice and Riverside will soon be able to receive 5,000 to 6,000-barrels per day as part of phase one of the project with capital expenditures of less than $2 million. We are finalizing commercial contracts for these opportunities, which we assume will also be accomplished by year end, and will contribute earnings beginning in the first quarter of 2012. Riverside has the option for two additional expansions.

The first expansion would add about 8,000 barrels per day of capacity, by the second half of 2012, and the second expansion would be a unit train facility with a capacity of up to 50,000 barrels per day, which could be achieved by the second half of 2013. Finally, our strategic investment in Howard Energy Partners with Qanta services provides us with an important growth platform in the rapidly developing Eagle Ford shale play, a new geographic area for Crosstex. We are moving ahead with Howard and Quanta on developing and executing projects in the Eagle Ford. Howard recently completed a 30-mile, 12-inch diameter pipeline system expansion that began flowing gas for our producer customer to a major pipeline interconnect.

Additionally Howard has more than doubled contractual volumes on their existing Texas pipeline in the short time that they have owned them. Howard management continues to evaluate additional opportunities for expansion in the Eagle Ford area. We don't expect to see distributions on our investment until after the middle of 2012, because we intend to initially reinvest all cash flow in growth projects.

In summary, you can see that we have been working hard on our growth projects expanding into new geographic areas and markets to meet our objective of enhancing scale and diversifying our operations. We invested $88 million of growth capital during first nine months of 2011 and expect to spend approximately $45 million in the fourth quarter of the year. As we said before, we expect average returns on these investments to be in the high teens, with the returns on the crude projects well in excess of this level.

Based on these expectations, we believe we will see annualized run rate cash flow additions of approximately $20 to $30 million from the projects that are scheduled for completion in 2012. Now, understand that this is an annualized run rate, and these projects will start at different times throughout the year. So we would really only expect a portion of this total amount in 2012. Additionally, the Cajun-Sibon project is expected to start in the first half of 2013, so it would be additive to the 2012 growth described.

Assuming the successful execution of our growth project scheduled for completion in 2012, we believe we could add -- we could see 2012 distribution growth in excess of 10% and because of the incentive distribution rights or IDRs resulting in the leverage to CEI, this could create dividend growth in excess of 20% at our general partner Crosstex Energy Inc. I want to emphasize that these are estimates and we will provide additional details on all of these projects and our expectations as part of our 2012 guidance that will be available in February of next year.

At this point, I'll turn the call over to Bill Davis who is in a new role here at Crosstex. As you may know, Bill was recently promoted to the newly created position of Executive Vice-President and Chief Operating Officer. As CFO, Bill developed a first-class financial organization and was instrumental in implementing operational improvements and spurring the growth of our additional assets.

In addition, Mike Garberding has been promoted to Senior Vice-President and Chief Financial Officer. Mike has been a key leader in our financial organization and has helped guide our recent business development efforts. He's done a great job of laying a solid foundation for our future. I think Bill and Mike will help maximize Crosstex's value for our investors during this period of tremendous growth. Now Bill will discuss the third quarter 2011 operational results in detail.

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

Thanks, Barry and thanks, everyone for being on the call this morning. As Barry mentioned we had year-over-year growth in line with our expectations but some quarter-to-quarter variances. The third quarter 2011 gross operating margin was $5.6 million, lower than in the second quarter, due to some operational challenges.

First, the rerouting of a pipeline connection to our Pelican plant from the Gulf of Mexico has diverted significant volumes from the plant until early 2012 when we expect to have that connection restored. Second the Blue Water processing plant was down for repairs during much of the quarter. Blue Water operations have been restarted and will continue to run subject to the availability of processible gas and processing economics.

Then at our Eunice plant, we have been experiencing significantly higher levels of carbon dioxide, CO_2, in the gas stream. The CO_2 forms dry ice at the extremely low plant temperatures which reduces our ethane recoveries and limits our ability to bring gas into the plant. We are installing amine-treating in front of the plant to remove the CO_2 which will allow us to increase inlet volumes and recoveries when this project is completed in the first quarter of 2012.

In addition, we had a significantly higher level of scheduled maintenance at our PNGL facilities than normal, including the turn around of our Riverside plant during the quarter. The turn around along with the processing plant issues mentioned above reduced the liquids available to our fractionators during the quarter. All of these events are temporary in nature and we expect they will be cleared up by first quarter of 2012.

Moving to the Barnett Shale, as you know we hold a franchise position in the Barnett Shale which continues to be a great resource play. A cumulative production milestone of 9 tcf was achieved earlier this year. And daily production is being maintained at an average of about 5.5 bcf per day. According to a recent report,this represents the largest daily average production rate for the Barnett despite considerably fewer rigs running in the play.

Average initial production rates are trending upward as rig efficiency improves and longer laterals are drilled. We think this reflects the vitality of the play and believe there will be continued development around our assets. We continue to focus on maximizing value by efficiently managing system pressures and expect our north Texas systems' volumes to be stable in 2012.

Throughput on our north Texas pipeline in the third quarter of 2011 averaged approximately 342,000 MMBtu per day compared to 358,000 MMBtu in the second quarter. Throughput on our north Texas gathering systems was 779,000 MMBtu per day in the third quarter compared to 826,000 MMBtu in the second quarter of 2011. Overall gathered volumes were down about 6%, primarily around our north Johnson County assets due to gas diverted to other markets.

Our north Texas processing plants processed 258,000 MMBtu per day in the third quarter, compared to 269,000 MMBtu in the second quarter. Moving to Louisiana, our league pipeline system provides 440,000 MMBtu per day of fully contracted take away capacity for gas from the Haynesville with the volume weighted average remaining contract life of approximately five years. In addition to the Haynesville, we have exposure to several other developing plays, including the Austin Chalk and the Tuscaloosa Marine Shale.

Activity around these plays by producers seems to be accelerating as they target liquids-rich production. If successful, these plays can provide great processing, transportation and fractionation opportunities for us on our LIG and our PNGL facilities. We are watching this activity closely, but it's too early to determine whether or when these plays will be successful.

Third quarter 2011 throughput on our LIG system averaged approximately 859,000 MMBtu per day, versus approximately 923,000 MMBtu for the second quarter. Throughput was lower in the third quarter due to customer plant maintenance. We expect the customer plants to return online during the fourth quarter. These plant down times had minimal impact on our financial results.

In the third quarter, LIG processing volumes of 236,000 MMBtu per day remained approximately flat with our second quarter. We are beginning to see a higher level of drilling activity around our plants and are optimistic that we will see new volumes develop in 2012. In our processing and natural gas liquids assets, we are continuing to see strong processing margins.

Third quarter 2011 processing margins were volume -- volumes were 699,000 per day, compared to 881,000 in the second quarter due to the temporary plant issues at Eunice, Blue Water and Pelican which I mentioned earlier. NGLs fractionated during the quarter were approximately one million gallons per daycompared with slightly more than a million gallons per day in the second quarter of 2011, due to those same issues and the Riverside plant turn around which required us to take liquids to a third party fractionator during the quarter, reducing our margins.

Demand for fractionation and NGL marketing continues to grow as producers make developing liquid-rich plays a priority. These areas include the Marcellus, Bakken and Permian which are areas that have restricted or undeveloped infrastructure. We offer producers in these regions interim solutions by transporting our NGLs via truck and rail to the Louisiana fractionators. We are currently receiving truck and rail volumes of approximately 10,000 barrels per day. This includes approximately 5,000. barrels a day coming from the Marcellus. We expect our truck and rail volumes to continue to increase in 2011 and 2012 as producer activity grows in these basins and we begin operations at our Mesquite terminal.

Now Mike Garberding will discuss our third quarter financial performance in more detail.

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

Thanks, Bill. In our earnings release, you will find the 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 these reconciliations. In addition, the 10-Q will be on file with the SECwhich you can access for more details on our results.

We made good progress in the third quarter. Our EBITDA continues to trend around 50 million even with the decline in gross operating margin from the second quarter of this year. The balance sheet continues to remain strong. We ended the third quarter with debt to EBITDA ratio of 3.96 to 1. This was the third straight quart for this key leverage metric to be at or under 4 to 1.

Even with growth capital expenditures of $88 million including -- incurred this year, our liquidity remains strong. We have well over $300 million available on our credit facility. Moving to distributions and dividends, I want to take sometime to walk through our thought process. When determining distribution dividends, key items we consider include first, the actual results of business.

Second, the type of contribution margin, whether that contribution is from commodity-based margin and driven by current commodity price conditions or more firm in nature with limited to no exposure to commodity prices. Third, the sustainability of growth, based upon our business outlook and finally, the ability to maintain or reduce our leverage. When we reinstated our distributions and dividends in 2012 -- or 2010, we discussed our thoughts around our distribution coverage ratio. With our commodity exposure at that time, our business would be expected to have a coverage ratio of approximately 1.3 times.

We had about 20% of gross operating margin with commodity exposure during that period. This coverage ratio could be increased or decreased based upon the sustainability of any additional cash flows. For example, our coverage ratio in the second quarter of the year was just over 1.5 times, which provided retained cash of approximately $11 million for the quarter.

If you look at second quarter results, we had an additional contribution for commodity-based opportunities above our plan of approximately $11 million which is consistent with the increase in coverage. The third quarter provided commodity-based opportunities of around $7 million. For the nine months of the year, approximately 30% of our operating margin was provided by commodity-based opportunities, typically processing margin and percent of liquid contracts. These are great opportunities given the current market conditions, however, there's no guarantee that these commodity prices will continue.

As we mentioned, our distribution and dividends are set based upon the sustainability of cash flows. We'll continue to view our coverage ratio based upon business contributions. Contributions from our growth projects have more long-term fee-based business which should reduce the overall coverage ratio as these projects come online. Our third quarter and year-to-date distribution coverage was 1.19 times and 1.43 times respectively.

Turning to third quarter 2011 results, the partnership realized adjusted EBITDA of $50.1 million, an increase of 5% from the third quarter of 2010 EBITDA of $47.8 millionGross operating margin for the third quarter was $91 million, an increase of $7.4 million from the third quarter of 2010.

This increase was primarily the result of a favorable processing environment and higher gathering and processing volumes in north Texas. We have continued to see strong processing margins in the fourth quarter of 2011. During the third quarter, we had a weighted average NGL price of $1.41 per gallon and an NGL to gas ratio of 371%Compared with NGL prices of $1.24 per gallon and NGL and gas ratio of 325% in the second quarter of 2011.

We continued to add positions to hedge our commodity exposure. We are approximately 60% hedged for the fourth quarter of 2011, hedgable percent of liquids volumes excluding puts. We have hedged over 45% of our hedgable processing margin volumes for the same period. We continue to look at our hedges in 2012 and layer in additional hedges also.

Currently we have hedged approximately 60% of our targeted percentage for both our percent of liquid volumes and processing margin contracts for the first six of months of 2012. As you know, we only use product-specific hedges in the forward liquids market. Turning to our growth projects we will continue to fund our new projects with approximately 50% debt and 50% equity with retained cash being considered an equity contribution. We have had retained cash of proximately $27 million through the first nine months of year.

The Cajun-Sibon project is the largest project with the midpoint growth capital of approximately $200 million. We expect to have commercial contracts later this year for Cajun-Sibon. Therefore we would expect to be in the equity markets over the next year based on the capital spend of this project. We will continue to focus on keeping our leverage metrics at or below four times to ensure we have the balance sheet capacity and flexibility for new growth projects, however our leverage metrics could temporarily increase due to the now scrubbed capital. Turning briefly to Crosstex Energy Inc., the Corporation had third quarter 2011 ending cash balance of approximately $5.5 million with no debt. As I had previously stated, the Corporation has declared a dividend for the third quarter 2011 of $0.10 per share.

Now, I will turn the call back to Barry.

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

Thank you, Mike. As you can see, we continue to see good results from our existing operations and to make great progress in accelerating the execution of our growth strategy. At the same time, we have taken strategic steps to grow into three new operating areas so we can provide creative solutions and services for our producer customers. These are integral to the expansion and the diversification of our assets and operations.

Before I close our discussion and we take your questions. I would like to talk a bit about XTXI our general partner, and what type of value it brings to investors. Because XTXI has a leveraged opportunity to participate in XTEX's growth through the ownership of the incentive distribution rights, or IDRs, we believe XTXI will benefit greatly in 2012 as our growth projects come online.

As I have mentioned our 2012 dividend growth expectation is excess of 20%, based on expected distribution growth of 10% or better. We also believe that the pure play C-corp structure provides additional strategic options. There have been several recent transactions involving midstream C-corps and general partners that demonstrate how they can be used strategically in key transactions.

We continue to review potential opportunities that fit within our strategic framework. As I mentioned at the beginning of the call, we're excited to be operating in a very robust environment for new midstream infrastructure build and we intend to see more growth in the future. Shale plays across the country are driving midstream infrastructure and service needs. There's been $40 billion of energy infrastructure built during last seven years.

It's forecast that this growth will accelerate even further with a monumental $205 billion in new natural gas infrastructure needed in this country during the next 25 years. Crosstex is well positioned with great assets and great people to take advantage of this considerably strong growth environment. I would like to reiterate our vision for 2011 and beyond. It's simply to be the best midstream energy solutions provider for our customers and to enhance value for our investors. We have made significant progress over the past several quarters and we are confident that we will continue to succeed. Now, we'll turn the call back to our operator and Bill, Mike and I will be happy to answer any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Our first question comes from the line of Darren Horowitz with Raymond James. Please proceed.

Darren Horowitz - *Raymond James - Analyst*

Hey, guys, good morning.

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

Hi, Darren.

Darren Horowitz - *Raymond James - Analyst*

Barry, a couple of questions for you. The first on the Apache JV to develop the Deadwood processing facility. Is the scale of that still in line with what you guys were thinking where it's going to be about a 20 MMcf a day, refrigeration plant is interim and then the cryo will be about 50 MMcf a day.

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

That's correct. The refrigeration is complete about the beginning of the year and the cryo completed in the second quarter.

Darren Horowitz - *Raymond James - Analyst*

So the refrigeration plant got pushed back a little bit because the interim facilities were supposed to be operational in this quarter, weren't they? the fourth quarter.

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

Originally I think we said by year end and we are now -- we are saying on schedule we are saying by the beginning of the year. By that terminology, Darren, it hasn't really slipped there. We're in good shape there.

Darren Horowitz - *Raymond James - Analyst*

When you are talking with Apache about what they are going to do in the area and other producers out of the Permian, it would seem to me that you would need more than 50 MMcf per day of cryo capacity, so how are you thinking about Apache's growth through the drill bit?

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

You probably have seen from several producer reports here in the third quarter that we are continuing to see very good results in this area. Several producers, I think are going to have some pretty revealing information about how things are going. So clearly, we are evaluating the additional requirements there and we're hopeful that we'll see something that would really justify an expansion beyond the current described project. Not only in this area, but Darren, we are also working obviously in several other areas of the Permian, and we think this is just the beginning of a platform that we intend to build from.

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

And just in anticipation of that, we have already ordered a second cryo to -- that would potentially go into this area.

Darren Horowitz - *Raymond James - Analyst*

Okay. Last question from me, Barry. I just want to go back to your closing remarks, where you were talking about the C-corp structure and your ability to be strategic. Can you just give us a little bit more color on opportunities that you are thinking about internally that could fit either your long-term goals or possibly current strategic initiatives that you think might create more value?

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

Yeah, Darren, I think what you see is everything that we described -- we would describe as organic singles and doubles growth that really for us adds up to be very significant. Beyond that, there's certainly the opportunity for M&A type transactions, larger transactions and we are certainly in that market looking at those opportunities and we would certainly be willing to use our general partner if it was helpful to achieve a transaction beyond kind of the organic growth.

Darren Horowitz - *Raymond James - Analyst*

When you talk about larger, Barry, can you give us an idea for scale?

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

Darren, I think it would be -- I think you just assume a variety of ranges. There are certain things that we believe would be very strategic to us, that would add to our capabilities, and really would give us a footprint in a new area, and so those could be varying sizes. Not only from an initial transaction standpoint but also the opportunities that would come as a follow-on to the platform that it would create.

Darren Horowitz - *Raymond James - Analyst*

Thank you.

Operator

And our next question comes from the line of Gabriel Moreen with Bank of America. Please proceed.

Gabriel Moreen - *Bank of America - Analyst*

Good morning everyone. A couple of questions on that bad debt expense that you mentioned, just wondered if you could give more color there, what exactly happened? Was that resolved? I mean has that customer gone elsewhere? Just wondering what happened there.

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

That is a transaction, Gabe, that dates to 2007, and it is basically a true up that happened over the course -- a true up in terms of a volume commitment that happened over the course of the period of time since then, that the customer who went bankrupt wasn't able to fulfill and so we fully reserved that.

Gabriel Moreen - *Bank of America - Analyst*

Got it. Thanks, Bill. And then in terms of -- Bill, you also mentioned north Texas volumes being flat year-on-year is that just the averaging your 2011 -- taking your 2012 projections versus average volumes for 2011? Or is it kind of exit run rate for --

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

Yes,right. That's exactly right.

Gabriel Moreen - *Bank of America - Analyst*

Okay. All right. And then last question from me is just in terms of the pipeline extension and the frac expansion. Just wondering if you can talk about -- it sounds like you are moving forward, so what minimum volume commitments you need to move forward and what returns, and also, I guess, what you are hearing from customers given, I guess, several other NGL, big NGL pipes announced since then. Obviously they are not doing quite the same thing but whether your discussions with customers -- have they shifted at all in that time, since some of those projects have been announced?

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

Gabe, this is Barry, and what I would say is we believe that today our project is as solid commercially as it's ever been. The projects -- in fact, we just heard a noise and I'm going to assume that we are still audible here. Jill, if there's any problem with that, would you let us know? But Gabe, we still feel like the project is very sound and, in fact, the more projects we see bringing in raw mate to Mont Belvieu, the better. Because that's our supply for our project.

We do think it offers essentially an equal to producers at Mont Belvieu, while at -- really providing an alternative or diversity in terms of market being over directly into the pet chem markets in south Louisiana. So we actually think it is a very favorable project. Our commercial contracting around it is going essentially the way we expected. As you know, these projects take some time to dot the I's and cross the Ts and that's essentially what we are doing. We are very confident and feel good and we are moving forward with all the early stage things that need to happen to keep this project on time. Again, we feel very good about the project and think that it's solid.

Gabriel Moreen - *Bank of America - Analyst*

Great. Appreciate the color. Thank you.

Operator

And our next question comes from the line of John Edwards with Morgan Keegan. Please proceed.

John Edwards - *Morgan Keegan - Analyst*

Good morning, everybody.

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

Hi, John.

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

Hi, John.

John Edwards - *Morgan Keegan - Analyst*

I can't remember if it was -- Barry, it was either you or Bill, I think you mentioned there was -- you were diverting volumes from -- to other markets from Texas. Can you give a little more on that?

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

We didn't divert volumes, John, basically in our north Texas system, we have some gathered volumes where the producer has the option to bring it to our market, depending on seasonal factors or to other markets and during this quarter, that producer elected to go to another market and so that reduced the volumes in north Texas gathering.

John Edwards - *Morgan Keegan - Analyst*

So you look at this as -- is this a one off situation or would you expect --

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

We have seen this in the past. And it's accounted for, fluctuations in our volumes on the north Texas gatherings in the past. It happens from time to time. Sometimes we will see those volumes and sometimes we won't.

John Edwards - *Morgan Keegan - Analyst*

Okay. And then given some of the operational issues that you had in Louisiana market this quarter. So absent that, what do you think the volumes would have been, I guess?

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

Well, I think they would have been consistent with the second quarter.

John Edwards - *Morgan Keegan - Analyst*

Okay. Okay and that's pretty much -- because we were noticing -- okay. So that's why you had -- the volumes were a little bit -- they were lower than expected in both Texas and Louisiana market. So it's -- okay. So about second quarter volumes. Okay. All right. And then what was the mix this quarter between fee based and commodity contribution?

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

This quarter was consistent with the second quarter, with about 70% of operating margin from fee based and 30% from commodity, which is the POL and processing margin contracts.

John Edwards - *Morgan Keegan - Analyst*

Okay. So with that in mind and you are talking -- Barry, you were talking about -- and Mike, you were talking about 10% increase in distribution for next year. Would that -- I mean, could we interpolate from that, that you would have about a 10% increase in the operating or in the fee based portion next year or how should we think about what the potential increase of the mix would go?

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

This is Barry; let me address that. When we talk about the increase, we are really referring to operating earnings that would be -- allow us to increase the distribution. It's not a draw down of the coverage.

And so I don't think you see enough impact in 2012 of fee based versus commodity based to significantly assume we are going to draw down the distribution coverage. Now, by the time you get to 2013, with all the projects rolled in and the additional cash flow which is 100% fee based, then you would have the opportunity to draw down the coverage, if you will, because of that -- new mix of fee based versus commodity.

John Edwards - *Morgan Keegan - Analyst*

Yeah, that's exactly what I was trying to get to, kind of what the mix -- what mix we could -- should think about for 2012 and 2013.

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

Well, it would be difficult for us to really give you any color on that now. We will see if it's clear enough in the February guidance to give you a little bit more color on it.

John Edwards - *Morgan Keegan - Analyst*

Okay. Great.

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

Let me go back, Gabe. I want to add a little bit more commentary. You referred to you will all of the pipeline projects going into Mont Belvieu. One of the things I would say is that the impact of that is that it has created enough activity and dynamics that the producers and the suppliers of the raw mate have had to be very diligent in sorting through all of that, and that probably has slowed down some of the contracting.

We haven't lost any momentum or any commitment to our project. It's simply that they are trying to line up all the ducks and there are a lot of moving parts there, as you know, with the various pipelines and how those pipes will line up with ours. So, I just wanted to give that color.

John Edwards - *Morgan Keegan - Analyst*

Okay. And then you probably said this. I probably missed it. When the -- when the Sibon project when is that -- when are you thinking that's going into service?

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

First half of 2013 is still on schedule.

John Edwards - *Morgan Keegan - Analyst*

Okay. Great. All right, thank you.

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

Thank you, John

Operator

And our next question comes from the line of Sharon Lui with Wells Fargo. Please proceed.

Sharon Lui - *Wells Fargo - Analyst*

Hi, good morning.

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

Good morning.

Sharon Lui - *Wells Fargo - Analyst*

I guess just clarifying on the anticipated north Texas gathering volumes. So year-over-year the expectation for next year is going to be flat. I guess -- are you seeing -- I guess initially, the partnership anticipated an increase from some of the firm commitments that you got. Is that still in line with your expectations offset from some diversions?

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

We -- think this year will average a little over 800,000 MMBtu a day on our gathering systems and we think we'll average at about that level next year. You know, we'll have a ramp up again in the first quarter as we see some of the volumes come on from the new projects, and then over time, we'll see that decline such that we'll average about the same level each year, year-over-year as you have seen quarter-over-quarter. We saw the impact of those new volumes coming on in the second quarter. We saw the diversion of some volumes in the second quarter as a result of the optionality that the producer had.

We'll get another ramp up in the first quarter of next year and for overall for the two years we expect to be slightly in excess of 800,000 MMBtu per day.

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

So that growth, Sharon, I think was speaking to the growth of 2011 over 2010, related to the Fossil Creek and the Benbrook projects. And I think that has been accomplished. It's the 2011 to 2012 that we are saying flat. When you look back at 2010, I think you saw the increase that we projected.

Sharon Lui - *Wells Fargo - Analyst*

Okay. And in terms of processing volumes in north Texas, is the expectation still that volumes will ramp up to capacity or close to capacity?

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

Yes, we should see that early next year.

Sharon Lui - *Wells Fargo - Analyst*

Okay. Great. Thank you.

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

Thank you, Sharon.

Operator

And our next question comes from the line of Barrett Blaschke with Kane Anderson

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Barrett Blaschke - *Kane Anderson - Analyst*

Hi, guys. You were talking about the distribution growth targets for next year, not drawing down coverage. I was wondering, what is a target coverage threshold for distribution increases today?

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

Yeah, Barrett, Mike went into great detail in the prepared remarks earlier trying to get to, that and it's -- somewhat complicated, but when you take our current mix of fixed predictable forcastable cash flow compared to that which is less predictable, being more commodity sensitive all together, today it would come somewhere it would come in the 1.25 to 1.3 times coverage would be in the center of our guidance and the center of our forecast. As -- and, again, what that's going to mean is that in the case where you had less commodity price income, then you would have less than 1.25 coverage. And let's just say that could go down to 1.0, or 1.1.

On the high side, when you have better than forecasted commodity impacts, then you would be at where we have been for the last couple of quarters which is the 1.5 to 1.6 range. We think we are still in a mix that would tell us that it should be somewhere in that 1.25 range.

We also had a deleveraging objective in our excess coverage, and we have been fortunate to be able to do more than that, and more of that than we anticipated. So as we look at 2012, I think it will still be somewhere in that 1.2 to 1.3 times, as kind of in the middle of our forecast, the middle of our guidance. Now, as we go into 2013 and we have added the significant growth from the fee based projects, then I think you could put it in a little different zip code from the 1.2, to the 1.3.

Barrett Blaschke - *Kane Anderson - Analyst*

Okay. And with the -- with the growth that you are talking next year, is it safe to assume that the distributions resume growth with the first quarter?

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

We -- we've got to see, Barrett. Obviously the growth projects and the impact they have in those quarters, as you heard us describe earlier, some of that growth begins in the first quarter, and so yes, it -- it is -- if it's based on the growth from those projects, we should see that happen in the first quarter. Timing is the key there, and as you know, in the execution of a project, take Deadwood, for example, things can happen, but we -- still believe we are solidly on track for the first quarter delivery on that project and our crude oil projects.

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

And the other thing is just the timing of the operational issues that Bill mentioned, as far as the success of getting those fixed.

Barrett Blaschke - *Kane Anderson - Analyst*

Okay. Thank you.

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

Thanks, Barrett.

Operator

(Operator Instructions). And I see you have no further questions at this time. I will turn it over to Barry Davis, President and CEO for closing remarks.

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

Thank you. And again thank you for joining us on the call. We are very pleased with the progress that we are making.

We thank you for your support and we look forward to seeing many of you over the next few weeks as we are out on the road for several events, and we look forward to any calls that you might have for follow-up questions. Have a great day and, again, appreciate you being on the call today.

Operator

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