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EnLink Midstream Partners LP (ENLK)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the EnLink Midstream Fourth Quarter and Full Year 2016 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this call is being recorded today, Wednesday, February 15, 2017 at 10 AM Eastern Time.

I would now like to turn the meeting over to Kate Walsh, Vice President of Investor Relations. Please go ahead.

Kate Walsh

Head-Investor Relations, EnLink Midstream LLC

Thank you and good morning, everyone. Thank you for joining us today to discuss EnLink Midstream's 2016 results and 2017 outlook. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Mike Garberding, President and Chief Financial Officer; Steve Hoppe, President of the Gas Gathering Processing and Transportation Business; Mac Hummel, President of the Natural Gas Liquids Crude and Condensate Business; and Ben Lamb, Executive Vice President of Corporate Development.

As you saw, we issued our earnings release yesterday and plan to file our Form 10-Q with the SEC later today. To accompany today's call, we have posted the earnings release and the operations report in the Investor

Relations portion of our website. Shortly after today's call, we will also make available a webcast replay of this call on our website.

I will remind you that any statements made about the future, including our expectations or predictions, should be considered forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are subject to a number of assumptions and uncertainties that may cause our actual results to differ materially from those expressed in these statements, and we undertake no obligation to update or revise any forward-looking statements.

We will discuss certain non-GAAP financial measures, and you will find definitions of these measures as well as reconciliations of these non-GAAP measures to comparable GAAP measures in our earnings release. We encourage you to review the cautionary statements and other disclosures made in our SEC filings, specifically those under the heading Risk Factors.

The structure of the call will be to start with brief prepared remarks and then leave the majority of the call open for a question-and-answer period.

With that, I would now like to turn the call over to Barry Davis.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

Thank you, Kate, and good morning, everyone. Thank you all for joining us today. I am extremely proud of our team and the accomplishments we achieved during the challenging commodity environment we found ourselves in this past year. Crude oil prices a year ago were hovering around \$26 per barrel. In response, our teams focused and executed our plan. As a result, we are strong and opportunity rich as we begin to now see strength in the industry.

At ENLK, we delivered approximately 14% growth in adjusted EBITDA and distributable cash flow from 2015 to 2016 while maintaining investment grade credit metrics and achieving a solid distribution coverage ratio of 1.03 times for the year. We exceeded the midpoint of our adjusted EBITDA guidance range, which is a testament to the strength of our business model.

ENLC, our general partner, delivered approximately \$202 million of cash available for distribution and achieved a strong coverage ratio of 1.09 times for 2016 with coverage expected to continue to strengthen in 2017 and 2018. ENLC experienced solid cash flow contributions and tax benefits from its strategic investment in our Central Oklahoma growth platform, translating into additional value for unitholders.

The strength of our business gives us the opportunity to evaluate distribution growth resumption at both ENLK and ENLC. We believe distribution growth could resume in 2018 based on our investment grade leverage metrics, distribution coverage targets in the range of 1.1 times to 1.2 times and a more stable commodity environment. We are also evaluating resuming distribution growth at ENLC in advance of ENLK as we expect a faster build of coverage at ENLC.

We currently see great value from our corporate structure having separately traded GP and MLP entities, and we believe it affords us important financial flexibility and transactional advantages. Corporate simplification is an active topic these days, and our position remains that we like our structure, and we don't have to solve the same problems as some of our peers.

We just entered the high splits for incentive distribution rights with around 10% currently going to the GP. We project limited cash taxes at the GP with the expectation of paying around \$5 million in cash taxes at the ENLC level for each of 2017, 2018, and 2019. We don't need to cut distributions as our coverage has remained strong and is growing.

Finally, we believe our focus should be on executing organic expansions in our core growth basins. This year, we have large-scale projects in progress such as bringing Chisholm II and III on line in the STACK, expanding Lobo II in the Delaware, completing Phase 2 of our Greater Chickadee crude oil gathering system in the Midland Basin and putting the Ascension pipeline in service in Louisiana. We are in the best basins and are committed to growing with our strong producer base across our entire platform. That's where our focus is today.

I'd like to now take a few minutes and update you on our core growth areas. The activity and results we see in Central Oklahoma are really exciting. Producers are accelerating investments and sharpening focus in the STACK as development results continue to exceed expectations. We are progressing well with building out additional processing capacity to handle the increasing gas volumes, and we expect Chisholm II's 200 million cubic feet a day capacity to be operational in early second quarter. Once Chisholm II and III are in service, we will have approximately 1 billion cubic feet a day of processing capacity in the region.

As producers capture efficiencies by transitioning to multi-well pad drilling from single-well development, we believe that our volume growth in Oklahoma will be erratic or saw-toothed during the year rather than a steady upward trend. The predominance of volume growth is expected during the second half of 2017 as drilled and uncompleted wells and new wells drilled in the first half are tied in and start flowing volumes through our system. We're on track to bring Chisholm III's 200 million cubic feet a day on line during the fourth quarter of 2017 and are evaluating the next suite of expansion options available to us. Our conviction in Central Oklahoma is growing day by day.

Turning now to the Delaware Basin, we're also experiencing exciting progress on our footprint in this high-growth basin. We recently added to the depth of our commercial portfolio by signing a new contract with a large investment grade producer who is very active in the area. We're expecting associated volume uplift to accelerate the next phase of our Lobo System buildout. We're expanding our gas processing capacity in the area by 60 million cubic feet a day, bringing Lobo II to 120 million cubic feet a day. The additional capacity is expected to be on line in the second quarter, and our total processing capacity in the basin will be 155 million a day.

This new long-term contract is fee-based and has associated volume commitments but no dedicated acreage. Without associated dedicated acreage, you won't see rigs related to this contract in our quarterly rig count update, but there are several rigs active in this producer's development area. We expect the volume commitments associated with this new contract to utilize the majority of the 60 million cubic feet a day expansion.

Our Midland Basin operations are well positioned for the gas and crude volume growth we are expecting in 2017. We strategically invested in additional gas processing capacity during 2016 by bringing the Riptide plant on line, and we expect to see utilization of our asset steadily ramped throughout the year. We'll also be bringing Phase 2 of our Greater Chickadee crude oil gathering system on line later this quarter and are expecting meaningful volume growth on this system during the year.

Our Louisiana assets could not be positioned any better, a franchise gas and NGL platform in the growing Gulf Coast demand corridor. On the gas side of the business, we conservatively estimate slow, steady growth as it is tough to predict power generation demand driven by weather and interruptible demand driven by LNG and other end users.

For liquids, we're excited about linking supply from the tailgate of Chisholm II to demand on our Cajun-Sibon system. We're forecasting that our Cajun-Sibon pipeline will be at maximum capacity in the second quarter of this year. We're also expecting the uplift in volumes to benefit our entire NGL system in Louisiana. As I mentioned before, we're bringing on line our Ascension NGL pipeline in the second quarter, and we expect to leverage additional bolt-on growth once that line is in service.

And finally, I want to touch on our anchor position in the Barnett Shale. Devon announced that they are allocating capital of approximately \$50 million to their North Texas operations and are investing in both their refrac program and their drilling program with an expectation of drilling 5 to 10 new wells. We are encouraged to see Devon's renewed investment in the area and are optimistic that modern completion techniques could lead to further development of our dedicated acreage sooner than anticipated.

However, we are operating in a mature basin that has seen limited invested activity over the past year or more. During 2016, we experienced gathering volume declines of around 8%, slightly more than forecasted. We continue to work with Devon on optimization programs and pressure reductions. During 2017, we estimate gathering and transportation declines will be around 10% when normalized for the sale of the North Texas pipeline. We do believe this will improve over time as Devon again increases capital in the Barnett and we have minimum volume commitments in place that provide strong cash flow support.

To sum it all up, we continue to execute on the plan we laid out: strong balance sheet, best basins, right platform, top customers. The strength we built in 2016 positions us well for 2017 and beyond, and we continue to capitalize on growth opportunities and execute on long-term expansions across our platform, creating unitholder value for years to come.

With that, I'll turn it over to Mike.

Michael J. Garberding

President and Chief Financial Officer, EnLink Midstream Partners LP

Thanks, Barry, and good morning, everyone. As Barry highlighted, EnLink delivered strong results this year, achieving adjusted EBITDA net to ENLK of \$775 million for the year, which represents over 14% growth from 2015. We exceeded adjusted EBITDA guidance for the third year in a row and continue to build a strong scorecard of executing on the plan we laid out. We are committed to maintaining our strong investment grade balance sheet, preserving ample liquidity and creating stable cash flows that support and grow our distribution.

We took deliberate steps during 2016 to ensure that we met our goals. First, we executed on nearly 1.2 billion in equity during 2016. This includes our preferred and ENLC units issued for Tall Oak acquisition and our ENLK ATM issuances during the year. We ended a very tough year with debt to EBITDA of 3.7 times, a very solid place to be from a balance sheet perspective.

Second, we executed on issuing senior notes in July with an all-in interest rate of 4.85%, which was at the lowest point of the 10-year treasury for the year. This helped to position us with a consolidated liquidity of \$1.6 billion at the end of the year.

Third, we executed on a joint venture with NGP to ensure we had a strategic partner with focused capital to quickly grow the business. We gained access to \$400 million in capital commitments that allowed us to finish out our initial Delaware build as well as deepening relationships with a large investment grade customer.

Finally, we announced the sale of noncore assets for \$275 million and are reinvesting in our core basins, Central Oklahoma and the Permian. We did all this to ensure we maintain the strength of our balance sheet despite very volatile capital markets. This also puts us in a position where we do not have to rely upon marketed equity transactions for 2017 equity funding, which provides great financial flexibility.

Our current financing plan has us issuing equity under the ATM, consistent with the pace in the second half of 2016 as well as finalizing asset sales we have discussed. As Barry mentioned, we believe we not only have assets positioned in the core of the core of the best basins but we also have the right business model to execute on our growth opportunities. We believe this solidly comes together in 2018.

A couple of items that we highlighted in 2017 guidance were the exit rate ENLK-adjusted EBITDA and distribution growth. The exit rate adjusted EBITDA should highlight the earnings growth of these assets in the business model. Our 2017 guidance projects an adjusted EBITDA exit rate of \$925 million to \$950 million, a 20% increase versus 2016 adjusted EBITDA.

We signaled that the majority of growth will be levered towards the second half of 2017 with an expectation that the first quarter will be somewhat flat to the fourth quarter of 2016. However, we believe this growth gives us the opportunity to consider growing distributions at ENLK during 2018 and potentially growing distributions at ENLC prior to ENLK.

I will now turn the call back over to Barry for concluding remarks. Barry?

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

Thank you, Mike. We're excited about the year ahead. We have a lot to execute on and a lot to accomplish. We have superior quality assets in premier U.S. basins and long-term contracts with top tier producers who are focused on growth. We believe the activity we're seeing today is sufficient to drive the growth we expect, and we have a team whose hearts and minds are fully engaged who come to work each day with a strong sense of ownership and purpose, all keys to continuing to pave a successful path ahead.

With that, operator, you may open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] The first question comes today from T.J. Schultz with RBC Capital Markets. Please go ahead.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Q

Great. Thanks. I think, just first looking beyond Chisholm III, when you think about that next suite of expansion options, what are the kind of current thoughts on keeping potential [ph] processing additions in basin (16:22) versus the potential for Oklahoma Express? And then, just any color on potential expansions or extensions into Cajun-Sibon.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Good morning, T.J. This is Barry, and I'll ask Ben to respond to that.

Benjamin D. Lamb

Executive Vice President of Corporate Development, EnLink Midstream Partners LP

A

Hello, T.J. It's Ben. So, first, let's step back and just talk about where we are in Central Oklahoma, as you said, looking beyond Chisholm III. But first, just want to remind everyone that Chisholm II is under construction right now, looking to go in service here very shortly, Chisholm III coming right behind that toward the end of the year. And previously, we had guided you to think about the need for a processing expansion every 12 to 18 months, if present trends continue. Right now, present trends are continuing. We don't see anything different today than when we provided that general guidance.

Now, as to the next step on processing capacity in Oklahoma, it could take a couple of forms. It could take the form of additional capacity there in-state. It could take the form of Oklahoma Express and doing the processing in North Texas. What we do have is conviction that we will continue to need to add processing capacity. What we lack today is perfect clarity on the downstream markets that would determine where that processing capacity should be.

At times, it has looked like Oklahoma Express was the best answer. At times, it has looked like in-state processing was the best answer. And right now, we have a very dynamic market on the residue gas side, in particular. It will need to see a little bit more clarity before we can make that determination. Fortunately, I think we're going to have that clarity before we need to make a decision, which is probably later this year.

On the Cajun-Sibon question, maybe I'll start and I'll ask Mac to add. The great news is we're going to fill Cajun-Sibon with Chisholm liquids. The question that we have before us is exactly how we get those liquids to Cajun-Sibon. We control enough supply to construct an NGL pipeline, if that's what we choose to do. Something that we are working through right now is trying to determine whether that is the best answer, whether the best answer is a partnership with others or whether the best answer is just using third-party infrastructure that's very attractively priced. And so, we will have to stack up all of our options and make sure that we choose the one that competes the best both financially and strategically.

McMillan Hummel*EVP & President-Natural Gas Liquids and Crude Oil Business, EnLink Midstream Partners LP*

A

T.J., this is Mac. And, Ben, I think you did a great job answering that question. I would just add that I think Central Oklahoma is a great demonstration of the capability that we've built and the capability that we're continuing to build to link our upstream businesses with our downstream businesses, so that we get multiple touches on that molecule and give us additional opportunities to add margin.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Got it. Thanks. That's helpful. Just moving to the Delaware JV contemplates \$800 million of committed capital. So, again, just looking ahead, in this case, after Lobo II, just any color on the next target. So, you're looking at more acquisitions, knowing Matador is still holding some midstream, or is there enough organically to do around your current footprint?

Benjamin D. Lamb*Executive Vice President of Corporate Development, EnLink Midstream Partners LP*

A

Hey, T.J. It's Ben again. I'll start, and Steve may want to add on. Our priority is focusing on the execution of what we have in the Delaware, so it's organic growth as the first priority. Having said that, there are a lot of assets in the Delaware that could come available for sale. We've seen some transaction activity already this year in that regard. We're always involved in M&A activity. We're always looking for opportunities to add to the positions that we have in ways that make us better, but we will be disciplined about it. And if we take that step, it will only be because we feel real conviction that an acquisition makes us better.

Steve J. Hoppe*EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP*

A

Hey, T.J. Yes, this is Steve. When you look at the opportunities that we've got in front of us right now, the first opportunity is the expansion that we've got at the Lobo II plant. So, it's a 60 million a day plant, and we've already started work on expanding that to 120 million a day.

In addition to that, there are a number of pipeline expansions that we're working on off of our gathering system. You'll recall the gathering system was recently put into service at the end of this year, and that was actually three months early. We had planned on the end of the first quarter. So, we are already in a great position to expand off of the gathering system, and we've got an opportunity as volumes grow that the next bolt-on would be a third plant in the area. So, we see a lot of opportunity for rapid growth in the area. We see drilling and prices improving that can give us the market to drive that opportunity, and we're prepared for – we're preparing for it today.

T.J. Schultz*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks. Just last one for me. Barry, you touched on the [ph] GP-LP (21:40) structure. Just if you could expand on some ways you want to leverage the flexibility that the structure gives you. Is this something you'd want to transact more at the ENLK level to utilize that currency? Or is the comment really that since the GP take is not a big hindrance to your cost of capital right now, you just don't need to address it – or address the structure now but maybe something to consider later?

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream Partners LP*

A

Yes. T.J., consistent with what I said earlier, we don't think we have a problem, first of all, with the cost of capital burden or tax burden. At the general partner, we've done some very creative and strategic things to address that. So, we like our structure. We believe that it does, in fact, offer us some financing flexibility as we look at transactions.

Just to remind you, I mean, we've used it in two of the largest transactions – the combination of ENLC and ENLK in two of the largest transactions that we've done in the creation of EnLink, first of all; and then, in the Central Oklahoma asset acquisition that we did. So, that's an example of where we think it really affords us some flexibility. Not predicting, but certainly you're just acknowledging the optionality that we have.

And let me just lastly say we do believe there is a lifecycle to the [ph] GP-MLP (23:01) structure, and everyone has to evaluate that in time and we will stay very much on top of it. And if there's something there that needs to be done, we certainly will – we'll certainly be proactive.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Great. Thanks, Barry.

Q

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

Thank you, T.J.

A

Operator: Thank you. Our next question will come from Jeremy Tonet of JPMorgan. Please go ahead.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

Good morning, Jeremy.

A

Rahul Krotthapalli

Analyst, JPMorgan Securities LLC

Hi, guys. This is actually Rahul for Jeremy Tonet. I have a couple of quick questions for you, guys. The first one on the Tall Oak EBITDA. So, for the [ph] ENLC's (23:34) share of \$9 million for 2016, this kind of translates to what, like, \$55 million for the year on EBITDA, which falls, like, slightly below your \$75 million to \$85 million guidance. I just want to check, like if I'm missing anything here. Or am I reading this right?

Q

Michael J. Garberding

President and Chief Financial Officer, EnLink Midstream Partners LP

Yeah. This is Mike. It's a good question. There are other items in there. There's some dollars in there related to the joint venture we have out of the Delaware. So, you're generally in the number, I would say, where we guided for. The Central Oklahoma acquisition was around \$70 million. Your numbers, if you just gross it up, [ph] about 16% (24:12) gets you I think around the \$55 million, if you do it just on the net number in there. I would say we're generally around that, probably more around the \$60 million number.

A

I think where you need to focus is, again, the growth we see moving into 2017 and then ultimately 2018 because of where the producer is at from a development standpoint, and the key for that is really the conviction we have around the guidance both for 2017 and [ph] exit rate (24:38) into 2018.

Benjamin D. Lamb*Executive Vice President of Corporate Development, EnLink Midstream Partners LP*

A

Yeah. Mike, I'll add on one thought. I know it's easiest to conceptualize our businesses as all being inside little boxes. And so, there's a Central Oklahoma acquisition box that we talked about and put an EBITDA number out there associated with it. But the reality is that asset has been integrated into our broader Central Oklahoma business where we had our 400 million cubic foot a day Cana plant.

And one of the things we did last year was offload volumes from the Central Oklahoma systems we acquired onto our legacy Cana system. And so, when we do that, some of the margin moves out of the acquired entity and into the legacy entity. So, just looking at the ENLK financials and doing a gross up, it doesn't tell the whole story of the acquisition.

Rahul Krotthapalli*Analyst, JPMorgan Securities LLC*

Q

Got you. That's helpful. And one more question, following up with the MVC's runoff in the Barnett. Can we, like, see Devon or like someone to step up for the flat contract renewals on MVC exploration? Like, few of your peers had, like, a similar kind of support. So, any comments there or...

Michael J. Garberding*President and Chief Financial Officer, EnLink Midstream Partners LP*

A

Yes. This is Mike again. I'll start and then pass it to Steve. So, I think if you go to what Barry talked about in the script on the Barnett [ph] that the key (26:02) is – really is us working hand in hand with Devon on the Barnett. And you can see that ultimately through two things. One, you can see that from a Devon perspective on bringing money back to the drill bit; and, two, you can see it from an EnLink perspective on the pressure reduction, the optimization working hand in hand with Devon from an efficiency standpoint.

Steve can walk you through what those ultimately mean both to us and to Devon.

Steve J. Hoppe*EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP*

A

Yeah. So, this is Steve. On the MVCs in 2016 on the Devon-based contracts, and this is both North Texas and Oklahoma, we made \$37 million in MVC payments. In 2017, we're projecting about a \$20 million increase to that. But keep in mind, one of the things that we see is that the Oklahoma volumes will further be supported by development in the Cana-Woodford. So, we don't see that being an issue going forward long term.

In North Texas, I want to really stress that we're going to be very determined to find better than a runoff case in Barnett. We're going to continue working with Devon and other producers to reduce declines. We want to improve wellhead netback that is going to incentivize, encourage and support new development. We're going to continue to pursue consolidation opportunities and connect new suppliers to our system. And we've been very successful in our operations optimizations.

In fact, we have reduced O&M costs, \$20 million in 2017 compared to 2018. So, we've got a lot of things that we're working on and focused on to continue to have North Texas be a good and stable cash flow to our business, and I think we've been very successful in that effort.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Steve, I think that's well said. This is Barry. I want to add just to that or emphasize that it's a joint effort between us and Devon. We're working collaboratively to determine a positive future for the Barnett, and I think the \$50 million of investment that they're making this year is in that direction. We have not had a modern type curve, a modern well drilled in the Barnett for now two or three years. And so, part of what they're doing is to determine really where it fits in their portfolio, as well as – hopefully it will be helpful to other operators in the Barnett Shale to see what can be done.

We've seen some real positive developments in other plays like the Haynesville, for example, that has really resulted in a resurgence in that area. The expectation is that you would see returns on wells drilled in the Barnett today north of 20%. How far north will be determined by the success of the wells that we're drilling. So, again, emphasizing what Steve said, we're determined to find a better forecast for the Barnett Shale and beyond the MVCs to really close the gap there. So, stay tuned. We'll try to keep you posted on that as it develops.

Rahul Krotthapalli

Analyst, JPMorgan Securities LLC

Q

Thanks, guys. That's really helpful color out there. That's it for me. Thank you.

Operator: The next question will come from Mirek Zak of Citigroup. Please go ahead.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Hi, Mirek.

Mirek Zak

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. Good morning. Just a couple of quick ones from me, the first one being on the NGL side. I was just curious what potential opportunities you see on the NGL side at the Permian? Is that only on the pricing side or if and where you might see any additional opportunities around NGLs out there?

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business, EnLink Midstream Partners LP

A

Mirek, this is Mac Hummel. Thanks for the question. I think the primary opportunity we see for increased NGLs from the NGL side of the business out of our Permian area is that we can funnel those volumes into our Cajun-Sibon facility. So, like we talked about with Central Oklahoma and the linking opportunity we've got there, we got the opportunity to link some of that NGL growth that we see out of the Permian into our Cajun-Sibon facilities over time and really touch that molecule again [ph] multiple times (30:05) in our margin each time we do.

Mirek Zak

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. And secondly, in Oklahoma, at what point do you think crude production there could be substantial enough to warrant any additional infrastructure investment on your part or what type of opportunity set that might look like?

Benjamin D. Lamb*Executive Vice President of Corporate Development, EnLink Midstream Partners LP*

A

Yeah, Mirek. It's Ben. Let me start. I think it's later this year. The economics of crude oil gathering are such that it's hard to make it work for single wells being drilled by themselves in delineation mode. It is much easier to make it work and competitive with trucking when you have multi-well pads being developed. Something that we have seen late last year and certainly so far in the first quarter is a transition to pad drilling by more of our customers sooner than we expected.

And so, Devon, for instance, in their operations report highlights their Showboat development later this year, which is 15 to 20 wells in a single drilling unit developing three Meramec horizons. If you go and look at what Newfield said two days ago at the Credit Suisse Conference, they talked about up to 30 wells per drilling unit and have a gun barrel diagram showing 12 Meramec wells in the same section. Just today, I know we have one producer who's operating four rigs in the same drilling unit, four rigs all lined up on the north side of the same road. It's that kind of development that makes it possible to go and make a crude gathering system work. And it's something we're working on with multiple producers, and I expect we'll have some progress on that later this year.

Mirek Zak*Analyst, Citigroup Global Markets, Inc.*

Q

And is any of that in your guidance at this point?

Michael J. Garberding*President and Chief Financial Officer, EnLink Midstream Partners LP*

A

Mirek, this is Mike. It is not.

Mirek Zak*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. All right. Thank you very much. That's all for me.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream Partners LP*

A

Thank you, Mirek.

Operator: The next question will come from Robert Balsamo with FBR. Please go ahead.

Robert Balsamo*Analyst, FBR Capital Markets & Co.*

Q

Hey. Good morning.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream Partners LP*

A

Good morning, Robert.

Robert Balsamo*Analyst, FBR Capital Markets & Co.*

Q

Just some clarification, in the crude and condensate segment showing some good volume growth year-over-year, but obviously, the segment profit per barrel is kind of falling off. Is that just the newer assets generating a lower margin? Can we talk a little bit about that dynamic and...

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business, EnLink Midstream Partners LP

A

Yeah, Robert. This is Mac. What you see in the growth in the crude and condensate business is primarily oriented toward West Texas, growth around our Chickadee system as well as growth on the supply and marketing side. And so, if you're taking the barrel count and trying to do just an easy margin calculation, I think that's really somewhat misleading in terms of what the business is doing there. The way the Chickadee business is structured is that those barrels are purchased by us and then sold into Chickadee and then sold by us out of Chickadee. And so, from a crude and condensate segment perspective, we're touching those barrels twice, if you will. We're touching them on the supply and marketing side, and then we're touching them on the pipeline tariff side.

Robert Balsamo

Analyst, FBR Capital Markets & Co.

Q

That's good clarification. Thank you. And I was wondering if you could just address in Louisiana just the gas gathering and processing, obviously, some headwinds there, moving into 2017 [ph] continued rate (33:36) declines. Just anything you're seeing there, any potential flattening of those declines or any activity that's worth addressing at this point?

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business, EnLink Midstream Partners LP

A

Yeah, Robert. This is Mac again. On the gas side of the business in Louisiana, we continue to talk about the fact that we have what is the premier asset footprint in the state. When you look at what we've been able to do in terms of integrating those systems together and utilizing storage and the capability that brings, it's been significant. You might have seen as you look through the operations report, we had a record year for volumes in Louisiana in 2016. That record year was greatly benefited by a significant volume of interruptible business. That interruptible business was largely pointed at the power market and through our Sabine pipeline Henry Hub facilities. When it came time to provide guidance for 2017, we just didn't feel comfortable including all of those volumes in our number for 2017. I feel really good about our ability to compete for those. I feel real good about our ability to win those. And what I'm happy to say is if you look at the short ripple into 2017 we already have, our volume performance to-date in 2017 looks very much like our volume performance on average in 2016.

Robert Balsamo

Analyst, FBR Capital Markets & Co.

Q

That's great. So, that upside is not included in the guidance.

McMillan Hummel

EVP & President-Natural Gas Liquids and Crude Oil Business, EnLink Midstream Partners LP

A

That's correct.

Robert Balsamo

Analyst, FBR Capital Markets & Co.

Q

Great. And then just to follow up on a previous question, just that you mentioned the reduced O&M costs in 2017 by \$20 million kind of offsetting some potential headwinds from MVCs rolling off. Could you just elaborate on

those O&M costs, like what kind of savings they are, if that's sustainable, obviously, I assume it is, but just where it's coming from?

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

This is Steve and those are the cost reductions that we've seen over the last two years. So, 2017 is coming in \$20 million lower than our 2015 numbers. And it's just general O&M costs for the system-wide, things like compression rental expenses and items like that, [ph] but it is the same (35:49).

Robert Balsamo

Analyst, FBR Capital Markets & Co.

Q

That was \$20 million versus 2015.

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

Yes, [ph] it is the same (35:51).

Robert Balsamo

Analyst, FBR Capital Markets & Co.

Q

Okay. Great. That's it for me. Thank you.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Thank you, Robert.

Operator: [Operator Instructions] The next question will come from Matt Niblack with HITE. Please go ahead.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Thank you.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Hi, Matt.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Good morning and congratulations on the great performance here. Just want to clarify the Barnett refrac and development program, because I was looking through Devon's operations report, and it seems a little hazy in that report sort of the timing and whether or not that was something that was approved versus being explored. But your remark at the beginning suggests that maybe that has been approved. So, forgive me if I missed something there, but what's the status and the timing on that kind of redevelopment program in the Barnett?

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

This is Steve, Matt. And as of now, we don't have a specific schedule that Devon's got in their plans. I know that they've got a number of things that they're working on in trying to establish that schedule. And it's refrac, it's workovers on wells, and it's possibly drilling 5 to 10 new wells. So, we're going to continue to work with them through the year and help support that program. But we don't have a specific schedule as of today.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Okay. But the expectation is that that's something that will get started this year or we're still waiting for certain commodity environment that's not yet realized or...

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

No, I think we're expecting to see that this year. I don't think it's necessarily driven by pricing.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Okay. [indiscernible] (37:26).

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Matt, I think it was clear that it is in their 2017 capital plan. They allow us to use that capital [indiscernible] (37:34).

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Got it. And so, is the goal here to slow declines or is the goal here to get to flat or to grow? What's their operating objective?

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

I think their operating objective is the same as ours, it's to revitalize that basin and to apply, as Barry said, new drilling techniques and learn how those new techniques and new programs can help support the basin and where it falls in their portfolio.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Okay. So, in terms of the degree at which declines are arrested or reversed, that's to be determined?

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

That is correct, Matt. We've not seen a statement out of Devon of a specific target as far as flat or growing volumes out of the Barnett at this point. I think they're very much in a exploring opportunities mode at this time.

Benjamin D. Lamb

Executive Vice President of Corporate Development, EnLink Midstream Partners LP

A

It's Ben. Let's not lose sight of the big picture, and Barry touched on it earlier. There really isn't an instance where a truly modern drilling and completion technique has been applied to the best acreage in the Barnett.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Right. Right.

Benjamin D. Lamb

Executive Vice President of Corporate Development, EnLink Midstream Partners LP

A

And when you think about resource redevelopment, Barry gave the example of the Haynesville. The Haynesville like the Barnett was developed with frac 1.0. Well, now we're on frac 5.0. And I think it's an open question what happens when you apply frac 5.0 to the Barnett. That's what we're going to find out. It's going to be exciting to see.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Great. Thanks, guys.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Well, the other piece of that real quick is the refrac and getting that cost down to \$700,000 per well.

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Right.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

That's a very cost-effective way for them to go back in and recomplete all their older wells and their portfolio is large. So, two ways we're coming [ph] about that (39:27).

Matt Niblack

Analyst, HITE Hedge Asset Management LLC

Q

Great. I appreciate the color. I know it's not your most exciting asset but it's important for the model, so thanks for the discussion there.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Thank you, Matt, and we're looking forward to the future and, if possibly, being one of the most exciting, as you are.

Operator: [Operator Instructions] The next question is from Sharon Lui with Wells Fargo. Please go ahead.

Sharon Lui

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Good morning, Sharon.

Sharon Lui

Analyst, Wells Fargo Securities LLC

Q

Just if you could provide some more details on the recent contract for the Lobo II, whether there's a step-up in those volume commitments and if you can potentially see a potential expansion of Lobo.

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

Yes, Sharon. This is Steve. There was a step-up in volume commitments with the recent contract. And where we're at today, as we alluded to earlier, we've just put in Lobo II in service that added 60 million a day. That plant came on line in December. We're already working on the expansion of that Lobo II, which is another 60 million a day that would take Lobo II plant up to 120 million. When you combine that with our Lobo I plant, that gets us to 155 million. You look at our current forecast towards the end of this year, we would expect that we hit those volumes and be at that full capacity. So, we are now and in the next few months looking at what we're going to need to do as far as planning and timing for a third plant. And we definitely see a lot of additional opportunity out there beyond just the contract that we signed today. We've got a number of deals that we're on the verge of completing and a number of new opportunities that are coming up as prices improve. So, we're very encouraged by what we're seeing in the Delaware. In fact, I'll mention that in January, we saw volumes through our Delaware system approaching 6 million a day. So, we're definitely starting to see a lot of gas start to accumulate up there, and it's a very positive outcome that we're expecting this year.

Sharon Lui

Analyst, Wells Fargo Securities LLC

Q

Okay. Great. And also, I guess, there is a potential to expand Riptide I believe. Can you maybe talk about the potential timing and capital requirements for that expansion?

Steve J. Hoppe

EVP & President-Gas Gathering, Processing and Transportation Business, EnLink Midstream Partners LP

A

This is Steve again, and Riptide, we just completed last year. That was the expansion in the Midland Basin. With that expansion, that takes our Midland Basin processing capacity to over 100 million a day. As you look at the growth that we're projecting in the Midland Basin, it's going to run between 20% and 30% a year over the next few years. It's a good, stable, consistently growing asset. We really like the position we have in the basin [ph] in the floor (42:21). In fact, I'll note that when you saw the low prices – Barry in his comments had stated a year ago, we saw \$26 oil. Well, we still had rigs operating in the Midland Basin at \$26 oil, and we got even more operating at \$50 today. So, we've seen a lot of good, slow development in that area that is consistent with our plan. When you look at the timing of that, we think we're well positioned for the next few years with our existing processing capacity. We don't anticipate needing an expansion within the next two years. But we are chasing some opportunities that could be very large that may drive an expansion. Our next expansion phase for Riptide would add 100 million of capacity, and it would cost us in the neighborhood of about \$30 million, so very economical when you look at what you see for processing plants and processing capacity.

Sharon Lui

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

A

Thank you, Sharon.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to return the conference back over to Barry Davis for any closing remarks.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream Partners LP

Thank you, Chad, and thank you again to all of you who joined in today's call. We look forward to updating you on our first quarter results in May and just hope you have a great day, and again, thank you for your support. Good-bye.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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