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EnLink Midstream Partners LP (ENLK)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the EnLink Midstream Second Quarter 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 that this call is being recorded today, Wednesday, August 3, 2016 at 10:00 AM Eastern Time.

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

Kate Walsh

Vice President-Investor Relations & Tax, EnLink Midstream LLC

Thank you, Chad, and good morning everyone. Thank you for joining us today to discuss EnLink Midstream's second quarter 2016 results. Participating on the call today are Barry Davis, Chief Executive Officer; Mike Garberding, 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, Senior Vice President of Finance and Corporate Development.

As you saw, we issued our second quarter 2016 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 second quarter earnings release and the operations report to 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 statement made about our 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 we make in our SEC filings, specifically those under the heading Risk Factors.

The structure of today's 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.

[0046HJ-E Barry Davis]

Thank you, Kate, and good morning everyone. Thank you all for joining us today. I'm pleased to report that EnLink delivered another quarter of strong operating and financial results. We continue to execute on the plan we laid out at the beginning of the year.

We remain focused and active as we take advantage of market opportunities and leverage our increasingly diversified asset footprint. This approach can be seen in the recently announced Greater Chickadee Crude Oil Gathering System in the core of the Midland Basin and our new strategic joint venture formed with Natural Gas Partners to pursue active growth opportunities and expand EnLink's footprint in the liquids rich Delaware Basin. We'll touch further on these two items later in our prepared remarks this morning.

We also announced plans to accelerate the expansion of Chisholm II, a cryogenic processing plant servicing production out of the STACK and SCOOP plays in Central Oklahoma. The activity and growth the industry has experienced in these areas is truly exciting. The STACK and SCOOP rank among the most economic basins for producers in the Lower 48 today, and our decision to accelerate the expansion in this area is a result of some outstanding well results and producer plans for the remainder of 2016 and into 2017.

We are now in a position to tighten our consolidated adjusted EBITDA guidance range for the full year 2016 to a range of \$750 million to \$800 million from a previous range of \$720 million to \$800 million. The revised range provides a midpoint of \$775 million. The drivers behind our ability to provide this guidance revision are simple yet impactful. Volumes have remained strong across key parts of our business throughout the first half of the year and our major customers have signaled increases in rig count and production activity in our core growth areas for the back half of the year.

As we continue to partner closely with our customers to develop asset that support and service their increased production plans, I'd like to take some time to highlight three key areas of focus that will remain important growth engines for EnLink.

First is our advantaged and premier position in Central Oklahoma STACK and SCOOP regions. We believe good plays get bigger and better, and the activity and trajectory we're seeing in the STACK and SCOOP region undernably support that belief. Activity in Central Oklahoma remains very high and results continue to improve as

our customers and other operators focus on further delineating the play, extending the bounds of activity, and continuing to fine-tune drilling and completion techniques.

Devon specifically has experienced impressive development results as they execute their STACK strategy. In fact, over the course of the second half of 2016, Devon plans to triple their rigs in the basin, exiting the year with six rigs operating on our acreage.

The decision behind Chisholm's accelerated expansion is largely due to the exceptional well results, reduced drilling costs and increased future activity that our major producers like Devon have announced. Once completed, Chisholm II will add 200 million cubic feet a day of processing capacity at our facility and we now expect operations to commence during the first half of 2017, ahead of our previously communicated plans of a fourth quarter 2017 completion.

EnLink continues to benefit from a diverse and growing customer base of top-tier producers. This customer base continues to further develop their acreage positions, effectively expanding EnLink's reach to the north, south and west of our current position in the basin. This is a perfect example of our simple strategy of partnering with the right companies in the right places.

Our second focus area includes our vision for the prolific Permian Basin, an increasingly important driver of growth in capital deployment for EnLink and the industry. In the Midland Basin, we are focused on executing on the opportunities available from our strong asset base, including the ability to leverage our LPC business to develop new crude oil opportunities like the Greater Chickadee Gathering System we announced in June.

The Greater Chickadee project is a prime example of the high-value opportunities we're able to identify and pursue given our strong position. The project is progressing well with Phase 1 expected to be operational during the second half of 2016 and full operations forecasted for the first quarter of 2017.

As the industry adjusts to the ever-evolving commodity price environment, our producer customers like Diamondback, RSP Permian and Matador Resources, to name a few, have committed to increased activity, including new drills and the completion of drilled but uncompleted wells. DUCs represent a very important strategy for the industry that is rig count neutral and represents the most attractive source of new capital deployment and returns for our producers.

Today, we're proud to say we work with the majority of the top 15 most active producers in the Permian and we've seen the increased activity in action as rigs increased on our acreage from 10 in the first quarter to 14 today.

Looking to the Delaware Basin, we believe this play continues to rapidly advance due to superior economics and is evolving into a significant source of production and growth for oil and gas in the United States. We proactively enhanced our position in the basin through the acquisition of our Lobo gathering and processing assets in the fourth quarter of last year. With the purchase, we established EnLink as a full-service midstream provider in the Delaware Basin. Given our expectations of growth and opportunity in the Delaware, we believe the Lobo acquisition will prove to be a pivotal action taken in support of our long-term growth program.

As you saw earlier this week, we announced the formation of a strategic joint venture with Natural Gas Partners in the Delaware. NGP is a highly experienced energy investor with a proven track record of financing and developing high-quality assets across the United States. It is this extensive experience along with deep producer relationship that NGP brings to our alliance, and our management teams share the same excitement about the long-term value potential in the Delaware Basin.

The JV structure fits squarely into our financial strategy and unwavering commitment to the balance sheet strength and capital flexibility. The arrangement provides for significant liquidity over the near term and the optionality to further benefit the partnership and our general partner over the long term.

Finally, our footprint in the demand-driven markets of Louisiana continues to add important diversity to the customers we serve and valuable access to a wealth of incremental growth opportunities. On the whole, our results today are in line with expectations. We saw tremendous strength in volumes this past quarter, primarily driven by our systems access to power market and growing industrial demand. In fact, we experienced a number of record volume days during June and July and are optimistic about the volumes that will flow in our pipeline system for the remainder of the year.

We are already seeing the positive impacts of increased demand from LNG exports, gas-fired power generation, petrochemical expansions and the industrial requirements, and will continue to build out our strategically positioned assets to capture value and take advantage of the upside to come.

We also reactivated 12 Bcf of storage this quarter on our gas system as part of our plan to expand the capabilities of our leading asset platform to better serve our customers who are increasingly looking for alternatives to ensure liquidity and supply security as Louisiana Southern gas demand markets continue to rise. In summary, our Louisiana franchise is well positioned for long-term growth.

And with that, I'll turn the call over to Mike to review the financials.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

Thanks, Barry, and good morning everyone. EnLink delivered another solid quarter of results against an otherwise challenged industry backdrop. We perform well, with EnLink achieving adjusted EBITDA of around \$187 million and ENLC achieving cash available for distribution of around \$50 million.

With respect to the quarter, we have continued to see growth in our Permian, Oklahoma and Louisiana businesses with declines in our crude in North Texas businesses. The partnership's distributable cash flow was around \$151 million, generally in line with the first quarter 2016 results. The stable cash flows from our business support a healthy first half of the year distribution coverage of around 1.06 times for both ENLK and ENLC.

We've also continued to maintain a strong investment-grade balance sheet with ample liquidity. For the second quarter, we successfully executed on over \$50 million in at-the-market equity sales. In July, we successfully issued \$500 million of 4.85% senior notes due in 2026. In August, we successfully entered into a Delaware joint venture with NGP, which provided around \$115 million in capital reimbursement back to the partnership.

Finally, Howard Energy Partners expect to close a third-party equity investment in the third quarter 2016, which will reduce the capital contributions from the partnership to Howard. All of this positions the partnership a liquidity above \$1.3 billion and debt-to-adjusted EBITDA of approximately 3.9 times for the second quarter.

Our strong balance sheet and financing activity has positioned us well for the increased activity in growth capital in the Permian and Central Oklahoma. Even with increased growth capital of \$140 million to \$160 million, our expected net cash outlay accounting for the NGP reimbursement is in the same range of our original growth capital guidance or \$430 million to \$515 million for the year. Our actions continue to support a strong balance sheet.

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

Barry E. Davis

President, Chief Executive Officer & Director

Thank you, Mike. As we look back on the first half of 2016, we are very pleased with our ability to deliver solid results in challenging industry conditions. As we turn to the second half of 2016 and beyond, we are in a strong position to support the growth of our customers as they execute on their plans. We have an engaged workforce inspired by the clear vision to be a leading midstream company and we're excited to move forward with the growth and development path we discussed.

With that, Chad, you may open the lines for questions and all of our participants here on the call are available to answer your questions. Thank you.

QUESTION AND ANSWER SECTION

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

T.J. Schultz

RBC Capital Markets LLC

Great. Thanks. Good morning, guys.

Q

Barry E. Davis

President, Chief Executive Officer & Director

[ph] Good afternoon, T.J (14:17).

A

T.J. Schultz

RBC Capital Markets LLC

Hey. In the Delaware, how does the pace of investment change now with the partner versus what you were likely able to do before? Just trying to understand if you thought you could spend \$400 million or \$500 million on growth projects in the Permian before, including the 120 million a day plant. Is that opportunity set bigger now? Do you spend it faster, given more financial flexibility? Just if you could expand on the dynamics of what maybe NGP brings as far as customer relationships and so forth?

Q

Barry E. Davis

President, Chief Executive Officer & Director

Yeah. Thank you, T.J., and this is Barry. I'll start and then I'll ask Ben to some – add any comments that he might have.

A

First of all, T.J., what I would like to do is just be sure that everybody understands the context of kind of where we are as we looked at that joint venture. And I think for context, you have to look at that nobody has a better position in the leading growth basins in the country than we do and so an abundance of opportunities for growth.

The second thing is that we're in a sustained down-cycle with less certainty in the capital markets than we would like. So what we wanted to do here is go ahead and open up the other avenue for capital in the joint venture with NGP. And so, as we step into that, we also then kind of add for context that we see an abundance of opportunities in the Delaware, specifically for growth well beyond what we have communicated and what we have defined and executed on to-date. We think that the play just gets better by the day, so tremendous opportunity for growth just from an organic standpoint.

We also think that eventually, there is going to be a consolidation and there's going to be opportunities for us to acquire other assets. So strategically aligning with NGP, we think, brings a number of things to it, access to capital, relationships with producers and just a general industry expertise that we think will be very helpful, if you will, as we develop the Delaware.

Ben, any...?

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yeah. Just to add on to that, T.J., I would just say that if we didn't see the Delaware having the same potential for us that we have realized in the Midland Basin between 2010 and last year, we never would have started with the Lobo project. And so, what this does is it gives us the firepower to go and aggressively pursue expansion in the Delaware because the battle for the basin is being fought right now and we see these opportunities in front of us right now. This gives us the ability to go and continue to compete.

T.J. Schultz

RBC Capital Markets LLC

Q

Okay. Thanks. So just on the relationships with producer customers that NGP brings, I guess specifically, does it come with any committed volumes from any NGP portfolio companies?

Barry E. Davis

President, Chief Executive Officer & Director

A

Yeah. T.J., one of the most attractive things for us about NGP is their level of knowledge in the Delaware, and they have the same level of excitement for it that we do and you see that in the investments that they've made in the Delaware Basin. So, I think that our relationship with NGP will perhaps open some doors that may be otherwise wouldn't be open for us. But at the same time, we're going to have to compete for all of our customers' business just like we do every day.

T.J. Schultz

RBC Capital Markets LLC

Q

Got it. Thanks. I guess from the SCOOP moving on, as we think about activity accelerating, you've talked in the past about linking Oklahoma and North Texas. Just any more thoughts on that as activity accelerates.

Barry E. Davis

President, Chief Executive Officer & Director

A

Yeah. T.J., so fantastic results in the STACK. I hope you've taken a look at Devon's operation report so that you've seen some of those well results. And the combination of those improving well results, not just by Devon, but from our other producers as well and Devon's announced increase in their rig count from two rigs today to six rigs by the end of the year, all of that combines to accelerate our need for a processing expansion. And so, at this time, we're going ahead with our Chisholm II plant, 200 million a day and that'll be online first half of next year.

What you're talking about is our Oklahoma Express project, which is a potential next step beyond Chisholm II for the next tranche of processing expansion in Oklahoma. We think that is a wonderful option because it provides not only processing, but also helps debottleneck the takeaway market in Oklahoma. And so, we continue to work with Devon, our other producers on whether that's the right next step beyond Chisholm II.

T.J. Schultz

RBC Capital Markets LLC

Q

Great. Thanks. I guess just lastly, maybe Mike on funding requirements, if you could just discuss priorities or current thoughts to fund CapEx over the next 12 months. Obviously understand the benefits of the JV, but maybe just specifically the ability to execute on asset sales, how much you may want to lean on the ATM or kind of other levers that you may or want to pull.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. Thanks, T.J. It's a good question, but it's a nice problem to have where we have nice growth really within our core basins, and to be able to be in a situation where we can announce an additional \$140 million to \$160 million in growth and still be on a net capital outlay of less than our original guidance for growth capital is good. And that goes back to how we're thinking about this.

Again, holistically, we want the optionality to look at a lot of different avenues to fund the growth capital and we're executing on that today, right. You've seen it through the ATM, which we did \$50 million in the quarter. You saw it through the bond offering to assure we have ample liquidity. You saw it through the NGP joint venture with the capital return to us. And you saw it through us working with Howard on bringing third-party capital to Howard. And so, on a go-forward basis, you'll continue to see all that.

The nice thing is we're still in the same situation we were last time we talked to you last quarter with regard to what kind of equity needs we need and that was again utilizing ATM really in the same way we utilized it this quarter. So, for us, it gives us a lot of optionality really to finance the business and continue to grow the business. So I feel very good about that.

T.J. Schultz

RBC Capital Markets LLC

Q

Okay. Thanks, guys.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, T.J.

Operator: Your next question is from Brian Gamble with Simmons & Company. Please go ahead.

Brian Gamble

Simmons & Company International

Q

Good morning everybody.

Barry E. Davis*President, Chief Executive Officer & Director*

A

Good morning, Brian.

Brian Gamble*Simmons & Company International*

Q

A couple of things. One I guess, Barry, clearly we're in a very quickly evolving crude tape activity in the Permian, definitely headed in the right direction as it is in the midcon, but that almost seems like a week-on-week decision from some producers, Devon included in that. Just how much confidence do you have in their current plans to get to six rigs by the end of the year?

I know that may be a fluid process. As I mentioned, they may change between morning and night. What, I guess, confidence do you have there? And then, actually, what need is there to get all the way to six by the end of the year to make the expansion capital pull-forward still a viable option? It seems like you're planning for 2017. At this point you, guys are locked and loaded. I guess how much of the pull-through from the E&P side you really need to see to make that a worthwhile venture?

Barry E. Davis*President, Chief Executive Officer & Director*

A

Yeah. Brian, this is Barry. First of all, let me say we've given up on trying to predict where pricing is going to go and keep it right down in the middle. And I think what you see is really terrific performance from our asset base over a very long down-cycle here. This is now approaching 24 months and so we take that as a real positive.

But I do think we're also – really have positioned ourselves extremely well to be in the basins that are going to work at \$30 or going to work at \$40. And so, it really is a question of the capital available. And from that standpoint, I also believe that we are working with the right producers.

We've highlighted in the STACK, for example, that the producers that we're dependent on are guys that are well-capitalized investment-grade producers, same thing in the Delaware and in the Midland Basins. So we're extremely well-positioned on an asset platform that has performed well to-date.

And so, Ben, I think you could add something there.

Benjamin D. Lamb*Senior VP-Finance & Corporate Development*

A

Yeah, Brian. On the point of whether we need Devon to get to six rigs and our confidence level, my confidence level is high that that's what Devon is going to do.

I would also tell you that it's not just a Devon story. We've had pretty positive developments in our dedicated acreage position over the last quarter. One I would highlight is the acquisition of PayRock by Marathon.

Another we had an acreage package dedicated to us that has been acquired by Newfield. And if you look in the report that Newfield put out yesterday, there's a page in there where they talk about five SXL 10,000-foot wells. All the wells they call out there for exemplary results are dedicated to us.

And so, we feel conviction that the right time for the plant is now because the combination of increased Devon activity and the potential for increases from guys like Marathon and Newfield is going to be there. And there's

multiple ways that you can get there. So if there's a little bit of change in one producer, we're likely to see change the other way for another producer. So remember, it's not just a Devon story.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

And, Brian, let me add just a couple of things to that. Keep in mind, too, that you're seeing better well performance by all of our customers. So, if you look at the Tall Oak acquisition, the acreage we got with that in the first half of the year, that volume is up 50% from January.

So, we've seen growth in that volume directly even in a lower commodity price environment so we continue to expect to see growth in these areas. As Barry said, we think we're well-positioned in the Permian and in the Oklahoma Basins that can survive fluctuating commodity prices.

Brian Gamble

Simmons & Company International

Q

Great color across the board there, guys. Appreciate that. Mike, maybe one for you. Spending a lot more money, but getting someone else to pay for it, like you have to teach me how to do that. But as far as the recent debt deal, did you ask for more than \$500 million?

Was that your target level or was that just what you could get done at a rate you found acceptable? Just kind of want to quantify what the goal there was and how, I guess, the result is from liquidity standpoint moving forward for you guys. Are you where you want to be or do you need to see some additional augmentation by the end of the year?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

No, a good question, Brian. So, we believe high in liquidity during times like we've seen over the past 24 months. So we always keep our eye on liquidity and we're sitting today at liquidity after the bond deal, an NGP deal of about \$1.4 billion on a \$1.5 billion revolver. So we feel very good from that standpoint about positioning ourselves to succeed or have access to capital with regard to the development plan.

Second, on the bond deal, again, I think the story there is investors on the debt side really understand and like the story. We spent a lot of time marketing the bond deal to investors and a lot of the things you see here are, I think, what resonated with them. Our bond deal was launched at \$400 million and we had over \$4 billion of initial orders. And we just raised the \$500 million to ensure that we manage liquidity. So very good support in the bond market for what we're doing.

And again, this all goes back to what I mentioned to T.J., which was it's just again the continued optionality and really using every source of capital in times like this to ensure we maintain and manage our debt-to-EBITDA in 3.5 times to 4 times. And you see our coverage ratio increasing over time, too. So, we think as a business, we're positioning our self really well from balance sheet strength and distribution security.

Brian Gamble

Simmons & Company International

Q

Great. And then one more from me on the Howard Energy deal. Were you involved in finding the third-party there? It sounded like maybe there was some involvement and then I guess the continued evaluation of exactly

what to do with that ownership percentage moving forward. Clearly, the CapEx reduction is a benefit in the near term, but maybe a little bit more of a longer term strategy there would be helpful.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. And it's best even to start with our view of Howard. We, two to three quarters ago, spent some time just talking about Howard and what they're doing and again that goes to our belief in their business model and what they've created down there specifically is just expansion to the Mexican market. It's very interesting business and it's one we've been since the beginning and really like.

With regards to the financing, we're on the board and we're part of the process. We did run a process ultimately and that process is still in place. And with regard to bringing third-party capital in, we do expect that to be done hopefully this third quarter.

With regard to – the second piece of that of looking at the potential sale of our interest in Howard, it is something we're focused on. But as we said, we'll be patient on that because of our belief in the value of Howard.

So our number one goal is getting the capital into Howard to ensure that we could reduce our actual capital commitments to Howard and then the second step will be continue to look at the sale. As we gain more information on that, we'll continue to update you, guys.

Brian Gamble

Simmons & Company International

Q

Appreciate it, guys.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Brian.

Operator: The next question is from Darren Horowitz with Raymond James. Please go ahead.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

Hey, guys.

Barry E. Davis

President, Chief Executive Officer & Director

A

Hi, Darren.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

Ben, I want to go back to something that you had mentioned earlier. Around the ability to further define the scope of the STACK opportunity certainly within the context of what Devon's spending initiative through drill bit and the expectations for next year. Beyond that, Chisholm II plant and the additional processing expansion that you just talked about, how do you guys see the need not just maybe on the frontend for incremental compression, but also maybe more downstream opportunities, either for residue gas takeaway or additional Y-grade takeaway capacity

to further tying the system? Because before, you've talked about that evolving to a super-system and I'm just wondering with regard to the incremental CapEx, how you would define ultimately the scale of what that system looks like.

Benjamin D. Lamb

Senior VP-Finance & Corporate Development

A

Yeah. Darren, a great question and I think a question that really does highlight, you said it, the scale of our opportunity in the STACK. And I'd be quick to agree with what you said in your note early this morning that we do feel like we are the best positioned midstreamer in the STACK to take advantage of that opportunity.

For what's beyond Chisholm II, you said it, you start with significant gathering expansions to make sure that you can handle the gas. That works into a need for future processing capacity. That could be Chisholm II or Cana III, they're in basin. It could also be Oklahoma Express, which could provide not only the processing solution, but also effectively a residue gas takeaway solution because the residue gas would then be in North Texas where we have ample gas takeaway.

Opportunities beyond that include crude gathering. We talked at the time of the acquisition about the potential to build a crude gathering system to serve the same acreage that the gas system serves. And I would tell you that as our producer activity levels have begun to ramp up, interest in that project has also increased. So that's something we're spending time on today.

And on the NGL side, we would expect for our NGLs from Chisholm II and from future processing expansions to be available to our liquids business unit for fractionation in a Cajun-Sibon system or elsewhere. So, that gives you some sense of all the ways in which we have the potential to add value from our STACK position.

Darren C. Horowitz

Raymond James & Associates, Inc.

Q

Thank you.

Operator: Our next question is from Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy B. Tonet

JPMorgan Securities LLC

Q

Good morning.

Barry E. Davis

President, Chief Executive Officer & Director

A

Good morning, Jeremy.

Jeremy B. Tonet

JPMorgan Securities LLC

Q

Just wanted to touch base with accelerating the Chisholm plant and just wondering if this kind of puts you back to the time line that you originally envisioned with the deal and just kind of as you see things going forward now, are things kind of in line with what you expected when Tall Oak was announced or I think pluses or minuses versus what you saw at that point?

Benjamin D. Lamb*Senior VP-Finance & Corporate Development*

A

Yeah. Jeremy, it's Ben. The short answer is yes. When you look back at what we told you at the time of the acquisition, we told you that we thought the play would get better and it has. You've sent the well results. We told you that it would be Devon's focus and you're seeing that today with two rigs going to six. And we told you that there would be potential for significant follow-on investment and that's what Chisholm II represent the step of.

Now, at the time of the acquisition, we told you that Chisholm II would be happening right about now, third quarter of 2016. We have the benefits of being able to use our existing Cana infrastructure to move that investment out in time. And so, at the time we had this call last, we were talking about the end of 2017 for Chisholm II.

So the pull-forward kind of meets in the middle for the first half of next year. And we do see long term the need for additional expansion certainly beyond Chisholm II.

Michael J. Garberding*Chief Financial Officer & Executive Vice President*

A

Jeremy, there's something else that you need to keep in mind. You've seen in Devon's operating report the favorable results that they continue to see in the Cana-Woodford and they're continuing to develop that acreage as well. So that impacts all of our processing capacity as well and we take that into account. And that's going to be a very positive development for us in that area, too.

Benjamin D. Lamb*Senior VP-Finance & Corporate Development*

A

Jeremy, really the big question you're asking is, are we on track? Are we on track with this major acquisition? And seeing the activity levels that we expect in the second half and into 2017, the answer to that is yes. We're very much on track with our expectation in the acquisition.

Barry E. Davis*President, Chief Executive Officer & Director*

A

Yeah, Ben. Let me add. Jeremy, this is Barry. The way I've answered that question a lot recently is if you look back at the assumptions that we made in the Tall Oak transaction, every assumption every assumption has – or the reality has been better than the original assumptions in every case with the exception of the development activity. And now, what we're seeing is development activity catching up with what our original assumptions were.

Well results have been so good that we actually volumes to-date are in excess of what we originally expected because it has made – and that has made up for, if you will, the lack of development activity. So, I think there's tremendous upside for Tall Oak to actually perform better than our original expectations over time.

Jeremy B. Tonet*JPMorgan Securities LLC*

Q

That's helpful. Thank you very much. And just want to go back to the Delaware JV and you've touched on a bit here, but just wondering if you could expand a bit more on the thought process as far as selling half that asset versus monetizing Howard as kind of had been discussed at points in the past. How do you think about the gives and takes there and also versus preferred equity? Because, obviously, the Delaware asset is tremendously positioned and has great growth. So just wondering if you could walk us through the thought process there.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. A good question. This is Mike. So, the way to think about the Delaware is, it is much the strategy as it is the financing. The financing is the benefit of the strategy and it goes back to what Ben said earlier on the call, which is giving us the firepower to execute on opportunities we see. And we looked at a lot of alternatives, including preferred and felt that the best opportunity for us was to align ourselves with a long-term relationship with a party that has extensive knowledge of the Delaware and a party that has extensive producer relationships in the Delaware to help us achieve that strategy.

So, to me, the financing option or the sale of 50% was the net result of achieving that strategy. So for the Howard sale, it's something we said that likely in time we'll do and as I said earlier, we are looking at it right now. And that's just another area we'll look at with regard to financing the business and it's going to be a piece of what we think is the solution to putting capital to work in EnLink and we think a good thing.

So, when I think of the NGP deal, I think of it more as an advantage to develop quicker and bigger than we could probably do in our own.

Jeremy B. Tonet

JPMorgan Securities LLC

Q

That's helpful. Thank you very much.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, Jeremy.

Operator: [Operator Instructions] Next question comes from Barrett Blaschke with MUFG. Please go ahead.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Hey, guys.

Barry E. Davis

President, Chief Executive Officer & Director

A

Hi, Barrett.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Just a couple of quick housekeeping questions today. More around the Tall Oak, the installment payment that's been flowing through for the last two quarters, is that expected to kind of keep running at roughly the same rate? Are we looking at something fairly consistent there? Or how should we be kind of thinking about that for modeling purposes?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Hi, Barrett. This is Mike. Are you talking about what's going through interest expense?

Barrett Blaschke

MUFG Securities America, Inc.

Q

Yeah.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah. So that is what you get for accounting. Accounting, because of looking at that payment and it being in the future forces you to have a discount rate, and the discount rate was determined at the point of acquisition and that was in January when we had a pretty high discount rate. That's a whole non-cash accounting entry and has nothing to do with -anything with regard to the actual payment itself.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Right.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

So we want to ensure the highlight in Q that again it just -accounting makes us do that. It's non-cash. It has nothing to do with real cash interest expense.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Right. And I see where it's being adjusted back out for the DCF calc, but I'm wondering, does that go away effectively with the last installment payment?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

Yeah, it goes away. It does. It just decreased over time based on that original discount rate. And so time is the one thing it changes.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Yeah. And I guess the other thing I'm trying to factor in is, does that go away assuming that you guys pay all the installment off in one go or is that assuming that you defer some of it?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

No, it is. Yeah. So it's assuming right now from how it's being booked that we pay \$250 million in January of 2017 and \$250 million of January 2018.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Got it.

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

But again it's really accounting. Nothing to do with the actual payment or structure we have on the actual purchase price.

Barrett Blaschke

MUFG Securities America, Inc.

Q

Right. Okay. Thanks. That's all I had.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thanks, Barrett.

Operator: [Operator Instructions] All right. David Amoss is the next question and he's with Heikkinen Energy. Please go ahead.

David Meagher Amoss

Heikkinen Energy Advisors LLC

Q

Hey, guys.

Barry E. Davis

President, Chief Executive Officer & Director

A

Hi, David.

David Meagher Amoss

Heikkinen Energy Advisors LLC

Q

Can you guys give us just a little bit more clarification on that wide range of the potential reduction in CapEx from getting the preferred into Howard, the \$40 million to \$100 million? What moves the needle there? Is it just a matter of timing of getting that deal done at Howard? Or is there something else that's driving that range?

Michael J. Garberding

Chief Financial Officer & Executive Vice President

A

No, no. David, this is Mike. So, again, I think the best way to see that is on page 12 of the ops report and you can see the different bars. So when you think about the Howard bar specifically, the biggest factor there is really their CapEx timing. And that's why we have the original range within our guidance for 2016 was how quick Howard spends the capital, mainly for Nueva Era project going into Mexico. And so that's where we see the range on that.

And ultimately, the thing we're trying to point out is that we think the third-party equity coming in really, really solves for that capital need over the longer term and really puts us in a position to where we will be able to see the continued growth in Howard really with the third-party equity funding that.

David Meagher Amoss

Heikkinen Energy Advisors LLC

Q

Okay. That's helpful. Thank you. That's all I had.

Barry E. Davis

President, Chief Executive Officer & Director

A

Thank you, David.

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

Barry E. Davis

President, Chief Executive Officer & Director

Thank you, Chad. In closing, our top priority of maintaining a strong capital structure remains unchanged. We are focused on executing our key growth strategies while preserving our financial strength. We are confident we can create long-term value for our unitholders and investors with disciplined growth, stable fee-based contracts, strong customer relationships, diversity of basins and services, and strong partnership across our asset platform.

We'd like to thank our employees for doing an exceptional job in rising to the challenges put in front of us in the first half of the year, and we have conviction that our team will continue to conquer the new and exciting challenges to come.

Thank you for joining us today and have a great day.

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

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