



## Energy Transfer Partners

### Part 2: Midstream and Liquids Transportation and Services Segments



- Energy Transfer Partners (ETP) is the second largest U.S. MLP. The company has four major business segments examined in this report: (1) Interstate Natural Gas Transportation and Storage, (2) Intrastate Natural Gas Transportation and Storage, (3) Liquids Transportation and Storage, and (4) Midstream. ETP also has a controlling interest in Sunoco.
  - ETP's most significant earnings growth over the next five years is expected to come from the Liquids Transportation and Storage Segment, particularly in the Permian Basin, the Bakken Shale and the Gulf Coast. The Dakota Access (DAPL) and Energy Transfer Crude Oil Pipeline (ETCOP) will move crude oil from the Bakken/ Three Forks play to the Sunoco Logistics terminaling facilities in Nederland, TX.
  - The Midstream Segment's diverse gathering and processing base has helped stabilized earnings in the current weak commodity price environment. Future growth in the Marcellus, Utica, and Permian plays will generate a moderate increase in earnings.
- 
- Declining production and excess transport capacity in major U.S. plays drive our outlook for limited to no organic earnings growth in the Interstate natural gas segment and a gradual decline for the Intrastate segment.
  - Growth in the Interstate segment hinges on one major natural gas project, the Rover Pipeline out of Appalachia to the Midwest and Gulf Coast, which is moving forward despite some concerns about counterparty risk and a lower production profile. The other project, an expansion to feed the Lake Charles LNG project, is likely but dependent on a final investment decision (FID) by Royal Dutch Shell.

#### 1. Introduction

Energy Transfer Partners, L.P. is the second largest U.S. master limited partnership, with a market capitalization of approximately \$19.9 billion, and its size and scope make it an important bellwether for the overall industry in each of its segments. The company is also currently in the spotlight because of the failed, headline-grabbing drama surrounding the proposed merger between its general partner, Energy Transfer Equity, and Williams Cos. With the recent termination of the merger, this is a good time for a fresh analysis of ETP on the basis of its existing operations.

Because ETP is so large and complex, we have issued our Spotlight analysis in two parts. Part One published on May 11, 2016 focused on the two natural gas pipeline segments, which

generated 30% of adjusted 2015 EBIDTA. This report covers the Liquids and Midstream segments.

The **Midstream** segment has benefitted from ETP’s geographically diverse portfolio of gathering and processing assets. Returns from stronger plays have largely balanced declining volumes in others, stabilizing earnings despite the steep drop in commodity prices. Its major growth assets in this segment are its four gathering systems in the Marcellus Shale: Lycoming, East Lycoming, Wyoming, and Bradford. Volumes on these systems were down slightly in 2015 versus 2014, but are expected to increase over the next five years from the easing of capacity constraints that are expected to occur with the opening up of the Atlantic Sunrise and PennEast pipelines in late 2017. The additional 2.3 Bcf/d of capacity is expected to give a big boost to segment earnings, pushing the collective systems to 100% capacity utilization by 2022. More modest Midstream growth is expected in the Permian and Ohio Utica plays.

The **Liquids Transportation and Services** segment is the jewel in ETP’s crown, offering steadily growing returns from existing assets and promising future results from significant expansion projects. ETP’s existing Liquids Transportation and Storage is largely a fully integrated system, much of which is operated under its 100% owned Lone Star NGL subsidiary. Mixed NGLs from its natural gas processing facilities in the Permian Basin, Eagle Ford Shale, Barnett Shale feed approximately 2,000 miles of NGL pipelines primarily to its Lone Star fractionation and storage complex at Mont Belvieu, Texas. The company has been increasing fractionation capacity to process a higher percentage of the growing volumes transported by its extensive West Texas Lone Star Pipeline System.

Figure 1 shows the relationship between ETP NGL transportation capacity into Mont Belvieu (red line), our estimate and projection of volumes flowing into ETP’s fractionators (yellow line), ETP’s existing fractionator capacity (light blue area) and the potential for ETP to add additional fractionators as NGL demand increases.

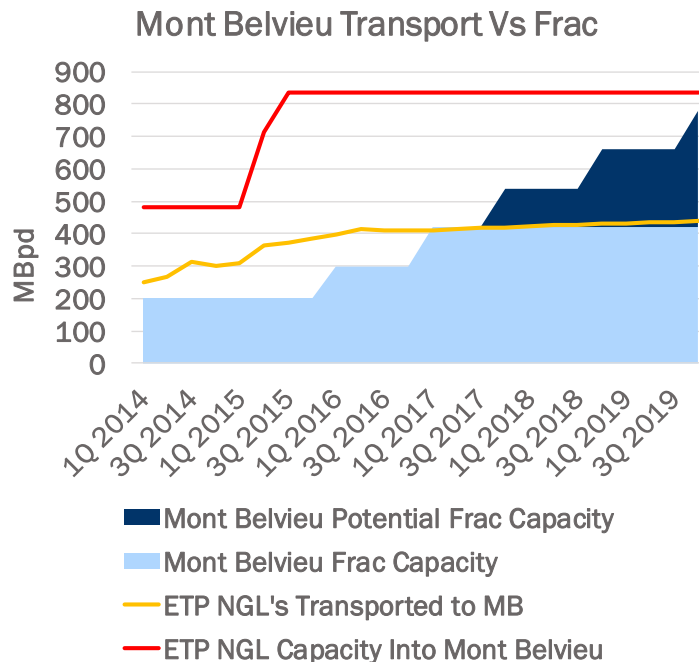


Figure 1 - ETP Midstream – Mont Belvieu NGL Transportation and Storage

ETP's most significant expansion projects are the company's Dakota Access Pipeline (DAPL) and Energy Transfer Crude Oil Pipeline (ETCOP). These pipes will move crude oil (not NGLs like most of the other assets in this ETP sector) from the Bakken/Three Forks play in North Dakota to the Sunoco Logistics terminaling facilities in Nederland, Texas. The economic rationale for this project is that it will reduce transportation costs for Bakken/Three Forks crude oil producers.

This Spotlight report addresses the primary drivers of ETP's growth over the next five years, assesses the risk involved in that growth, and examines other aspects of the company's business activities that will be significantly influenced by the levels of drilling activity in the basins where the company sources most of its processing plant, pipeline, fractionator and terminal throughput.

***This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at [rbnenergy.com](http://rbnenergy.com).***

***For more information on group subscriptions, send an email to [info@rbnenergy.com](mailto:info@rbnenergy.com) or call 888-613-8874.***

**The *Table of Contents* for "Energy Transfer Partners - Part 2: Midstream and Liquids Transportation and Services Segments" is included on the following page.**

**Table of Contents**

- 1. Introduction ..... - 1 -**
- 2. Spotlight Reports from RBN Energy and East Daley Capital ..... - 5 -**
  - 2.1 What is Spotlight? ..... - 5 -
  - 2.2 How can I get Spotlight?..... - 6 -
- 3. Primers on NGLs and MLPs ..... - 7 -**
  - 3.1 NGL Market Primer..... - 7 -
  - 3.2 MLP Primer ..... - 8 -
- 4. ETP Company Overview ..... - 9 -**
  - 4.1 Company History ..... - 9 -
  - 4.2 ETP Structure and Financial Performance..... - 9 -
  - 4.3 ETP Segments ..... - 10 -
- 5. ETP Midstream Segment ..... - 11 -**
  - 5.1 Overview of Midstream Assets ..... - 11 -
  - 5.2 Midstream Financial Performance ..... - 13 -
  - 5.3 Midstream Declining Assets ..... - 14 -
    - 5.3.1 *Eagle Ford System* ..... - 14 -
    - 5.3.2 *Fort Worth System*..... - 15 -
    - 5.3.3 *Anadarko System*..... - 16 -
    - 5.3.4 *ArkLaTex System*..... - 17 -
    - 5.3.5 *Intrastate Gas Gathering System*..... - 18 -
  - 5.4 Natural Gas Midstream Growth Assets..... - 18 -
    - 5.4.1 *Permian System*..... - 18 -
    - 5.4.2 *Marcellus System*..... - 20 -
    - 5.4.3 *Utica Ohio River System*..... - 22 -
  - 5.5 Midstream Expansion Project ..... - 23 -
    - 5.5.1 *Revolution System*..... - 23 -
  - 5.6 Key Midstream Takeaways..... - 23 -
- 6. ETP Liquids Transportation and Services Segment..... - 25 -**
  - 6.1 Overview of Liquids Assets..... - 25 -
  - 6.2 Liquids Financial Performance ..... - 26 -
  - 6.3 Liquids Analysis and Projections ..... - 27 -
  - 6.4 Liquids Transportation Assets ..... - 28 -
    - 6.4.1 *West Texas Lone Star NGL Pipeline*..... - 28 -

- 6.4.2 *Justice Pipeline*..... - 28 -
- 6.4.3 *Other Pipelines*..... - 29 -
- 6.5 Liquids Processing and Fractionation Assets..... - 29 -
  - 6.5.1 *Lone Star Fractionation Complex*..... - 29 -
  - 6.5.2 *Geismar Fractionator* ..... - 30 -
  - 6.5.3 *Mariner South LPG Export Terminal* ..... - 30 -
- 6.6 ETP Liquids Storage Assets ..... - 31 -
- 6.7 ETP Liquids Expansion Projects..... - 31 -
  - 6.7.1 *Dakota Access/ETCOP*..... - 31 -
  - 6.7.2 *Bayou Bridge Pipeline*..... - 32 -
  - 6.7.3 *Lone Star Crude Conversion Project*..... - 32 -
- 6.6 Key Takeaways ..... - 32 -
- 7. **Conclusions** ..... - 34 -

**2. Spotlight Reports from RBN Energy and East Daley Capital**

**2.1 What is Spotlight?**

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. In each report we “Spotlight” a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamental-based view of our Spotlight companies based on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace. This report, covering Energy Transfer Partners’ (NYSE: ETP) Midstream and Liquids segments, is the fourth edition of the Spotlight report series. The first edition covering ONEOK Partners (NYSE: OKS) was published in December 2015 and the second edition covering DCP Midstream Partners (NYSE: DPM) was published in February 2016. As noted above, the third edition, Part One covering Energy Transfer Partners’ (NYSE: ETP) Interstate and Intrastate natural gas segments, was published in May 2016.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data, and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs, and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

## **2.2 *How can I get Spotlight?***

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to [rbnenergy.com/spotlight](http://rbnenergy.com/spotlight).