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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Energy Transfer LP (NYSE:ET)

KELCY L. WARREN is Chief Executive Officer and Chairman of the board of directors of Energy Transfer LP and has been a leader in the energy industry for nearly 40 years. Mr. Warren co-founded Energy Transfer in 1996, which began as a small intrastate natural gas pipeline operator and is now one of the largest and most diversified publicly traded energy companies in the industry. Today, the Energy Transfer family of partnerships includes Energy Transfer, Sunoco LP and USA Compression Partners, LP.

SECTOR — ENERGY

TWST: Let's start with an introduction for our readers to Energy Transfer — a bit about the company's history, important milestones along the way and a snapshot of the overall business as it looks today.

Mr. Warren: First of all, Energy Transfer is a publicly traded master limited partnership. We're very large; I think our reported EBITDA for 2019 is expected around $11 billion, and we are very proud of that. We're very diversified. We are in the business of transporting energy, whether that be oil, natural gas, natural gas liquids, refined products, and then we not only transport it from one point to another, but we also export it. We deliver directly to customers in the United States but also overseas. We also fractionate products. We take a stream of natural gas liquids and fractionate them into other components such as ethane, propane, butanes, where they have a higher market value. We likewise export those products.

We've got about 90,000 miles of pipeline. We at least enter 38 states. Our assets are in every major oil- and gas-producing basin in the United States. We're very proud of that. It helps producers because rig counts tend to ebb and flow, and from time to time, they move, rig counts move from one basin to the other, and we are naturally hedged against that.

So that's a snapshot of who we are, and I think you asked about where we're going. Our future is really bright. We have changed who we are. We used to be accused of being a very complicated entity; we had multiple publicly traded entities, and so we went on an endeavor to consolidate, and we have completed that endeavor. We now have one entity essentially, and that entity is Energy Transfer. We also own the general partner and a large stake in Sunoco L.P. (NYSE:SUN). We have a very large unitholder ownership in a compression MLP too, which we publicly stated is something we will probably be exiting.

And with our future, we're just going to continue to grow smartly. Our expectations of rates of return have increased dramatically, consequently reducing our capex that we will be spending because there are a lot of deals that just don't make the cut anymore because our expectations for our rates of return are pretty high.

TWST: What would you say differentiates Energy Transfer from other energy companies?

Mr. Warren: Well, let me talk about energy midstream. What differentiates us is a couple of things. Scale: There are very few midstream companies that have our scale — in fact, like none — and so that makes us really special, because like I said before, we're so diversified in the services we can provide.

Let me go into that; that's probably the biggest differentiator. If you're a producer in the Permian Basin and you have just drilled a very successful oil well, with that oil well, there's going to be a lot of associated natural gas. In that natural gas, there's going to be a lot of natural gas liquids. So you've got a dilemma. Not only do you have to take your oil and get it to the best market — probably that's going to be a water-bound kind of market — but you also need to find a place for your natural gas.

And if you don't have someone that can provide that service along with that and the natural gas liquid service, to be able to take your natural gas liquids, extract them, transport them to a fractionation unit, fractionate them and deliver them to a market, then you've impeded your success on that oil well. You've got to have all those services, and we're one of the few, maybe two, companies that exist that can provide all those services and provide that assurance to the producer that he can move his products.

TWST: I know that Energy Transfer and/or predecessor entities have done a number of M&A transactions over the years. Most recently, in December, you closed on the SemGroup deal. Could you talk a little bit about that transaction? What about SemGroup made it attractive and a good fit for Energy Transfer?

Mr. Warren: Energy Transfer, we're pretty easy to understand. Anytime we can make ourselves better — what I mean by that is, can we access better markets, can we access better supply points, can we reduce the amount of compression and/or pumps required to move a product from point A to point B by combining other assets — anytime we can do that, we endeavor to do so. The problem we've got is that our unit price has traded so poorly for quite a long period of time, so using our currency to go and acquire another entity to make ourselves better is difficult. It's very difficult.

Specifically, in the SemGroup case, the assets that caught our eye — there are lots of assets that Sem has that we feel are really quality assets — but the ones that really piqued our interest the most were the assets on the Houston Ship Channel. And let me go into detail there. We have the largest single-owner crude oil terminal in the U.S. at Nederland, Texas. That's a legacy Sunoco asset. That asset is a wonderful asset. We store more crude and we deliver more crude to the export market than probably just about anybody.

But, here's the problem: Not everybody wants to go to Nederland. Some of them want to go to deeper water, which typically the Ship Channel provides. And so we saw this asset and the terminal that existed on the Ship Channel, and we started noodling on connecting Nederland and that Ship Channel terminal and concluded that this was something that we needed to do. So we acted upon it. Fortunately for us, SemGroup had disconnected with the market, and their unit price was trading substantially worse than ours, and so the math worked out in this particular instance.

Mr. Warren: I mentioned just a moment ago, we're somewhere in the mid-$3 billion, that's what we've stated, and I think that's pretty good. I think that's where we need to be. When you look at how big we are, opportunities really find us, and so there's a certain amount of growth that we must do just to address all of our volume commitments that producers have given us.

TWST: What projects do you have currently under development or expansion? Tell us a bit about what they are, when they'll be completed and, when they are completed, what that will mean for your bottom line.

Mr. Warren: Let's start with Mariner East. Mariner East is a pipeline system that basically bisects the state of Pennsylvania and moves natural gas liquids to the coast, to a facility called Marcus Hook, which we also own. Mariner East 2 will be completed this year. When fully operational, the system will move a tremendous amount of natural gas liquids for export at Marcus Hook.

Marcus Hook is another project where we will terminal the liquids — and in many cases, keep the liquids refrigerated because they're not stabilized if you do not refrigerate them — and then we will load ships at Marcus Hook. So that's two of the projects. The Marcus Hook full implementation of expansion is probably three years away. It takes a while to build these refrigerated tanks, they're very expensive, and so it's probably three years before that would be in full operation.

Then, we have the Dakota Access Pipeline optimization, and essentially what that is, is we're putting more pumps on the Dakota Access Pipeline to increase our capacity to over 1 million barrels a day. Presently, our capacity is 570,000. That project will hopefully be done within the next 12 months; I think even sooner than that is our forecast, but we've got some regulatory hurdles we're crossing in two states, one being Illinois and the other one being Iowa. They're not hurdles that are impediments as much as you just can't rush it. You must go through public hearings, you must do what you should do, and so that process is ongoing.

"Now, as I mentioned before, our currency is trading so poorly, acquisitions are very difficult, but we will continue that. That is who we are. We believe that organic growth combined with smart M&A is the correct formula for Energy Transfer. Again, it's hard. Organic growth is easy for us. We've got the best commercial team in the business, and like I said, we are high grading."

TWST: What is your growth strategy going forward? Is it organic opportunities, more acquisitions potentially or both?

Mr. Warren: Both. Now, as I mentioned before, our currency is trading so poorly, acquisitions are very difficult, but we will continue that. That is who we are. We believe that organic growth combined with smart M&A is the correct formula for Energy Transfer. Again, it's hard. Organic growth is easy for us. We've got the best commercial team in the business, and like I said, we are high grading. We don't do anything that doesn't have a mid-double-digit or higher IRR.

And consequently, that has reduced our capex spend down to probably mid-$3 billion, versus the last three years, we probably averaged more than $7 billion or so a year. We'd really been on a growth binge, so that's been reduced. But we think M&A is an important component of that, and we will continue to try to get our unit price up, try to make the market understand how great a deal we are and then hopefully have the correct combination of both of those.

TWST: You mentioned capital expenditures, and I know you haven't released your year-end numbers yet, but is there anything else you can share at this point in terms of your outlook and capex budget for 2020?

Lake Charles is an existing LNG facility that was built and operated as an import facility back in another time. Of course, that import market has long since gone, unless you live in Boston, and so we just don't bring in LNG anymore. We're attempting to convert that to an export facility. That's very important for us because we've got more product here than we have market, and Energy Transfer is doing everything we can to find more market for that product. Now, we benefit from that because the natural gas will not just be converted to LNG and shipped, say, to China, but it will also go through Energy Transfer's pipes, it will go into our storage facilities — all the services upstream of what is involved in natural gas, Energy Transfer will be involved in, and that's very good for us, very lucrative for us.

Then, we've got the Ted Collins Pipeline. I alluded to that when I mentioned why we bought SemGroup and what attracted us, because to connect Nederland to the HFOTCO terminal, the SemGroup terminal and the Ship Channel, we need to build a pipeline. That pipeline is underway; we're in the right-of-way acquisition phase, and we expect to have that done probably sometime next year. And by the way, Ted Collins was a dear friend of mine who we lost two years ago, so we named the pipeline after a lost friend.

Then, I mentioned Nederland. We're always expanding Nederland. We always need more capacity. Our customers are asking for more capacity, they're asking for more blending capabilities and more diversification of market, so Nederland is constantly expanding. Orbit, that's a fantastic deal our commercial guys did with a Chinese company to build export facilities for ethane at Nederland.

We were the first company in the United States to ever export ethane, and that took place at Marcus Hook. Now, with this facility, we're going to have the ability to do it on the Gulf Coast as well as on the Northeast Atlantic seaboard. The Chinese are our partners in this facility. They're investing in the refrigeration facilities at Nederland with us, and that should come online end of this year is what we think on that.

And then, our Lone Star Express, we've got more commitments to handle NGLs than we have pipeline capacity, so Lone Star Express is simply a pipeline to address those contractual commitments we've made, to expand our takeaway capacity from the Permian down to the fractionation at Mont Belvieu.

TWST: As you well know, oil- and gas-related companies are not all impacted the same by the inevitable rise and fall in commodity prices. Would you talk a bit about how those market fluctuations impact your business and profitability, and what investors should know about your company in this regard?

Mr. Warren: You bet, and if I can, I'm going to give you a little history as it relates to us, and it is going to segue into your question. Energy Transfer, we really got on a roll post-Enron. A lot of it was M&A, and a lot of it was organic growth. But it was predominantly a natural gas, Texas-centric company, so we made a living off of moving natural gas from the producing areas to the consumption areas, and if we saw basis contract — in many ways synonymous with commodity squeezes — if we saw that happen in the natural gas business, we felt it. And we looked up one day and basis across Texas was single digits with no hope of recovery, and we decided we were going to reinvent ourselves.

So we began a deliberate, quiet move to go into other products, other services, other geographical/geological basins, where we were never caught in that squeeze again where we were so vulnerable to commodity price reductions and/or basis contractions. So systematically, we bought Louis Dreyfus, our first major step that got us into the natural gas liquids business. Then, we acquired Sunoco; that moved us into the crude oil business. So we've done a series of very, very strategic maneuvers to get us into these other business lines, where when one is experiencing, like natural gas, prices that have been depressed for so long, that's OK because the spreads in crude oil business are still very, very healthy and spreads in the natural gas liquids business are extremely healthy.

So Energy Transfer is unique in that we're more immunized than any company I know. If you look at a Bakken barrel and rig counts fall in the Bakken, do we feel that? Of course, we feel it. Do we feel it as much as someone that only goes to Bakken? No, because we go to the Permian, we go to the Eagle Ford, we go all over with where we move crude. So I would just like to make the point that we deliberately reinvented who we were to get ourselves across commodities, across different basins and across all the services we provide, and we are very, very proud of that today.

TWST: What in particular are you doing to increase value for your unitholders?

Mr. Warren: We made a commitment to the rating agencies a year or so ago that we were going to get to certain credit metrics, and we are well on our way to achieving that, plus some. And with that comes very healthy financial metrics for the company that we're moving to very quickly, and our unitholders should be very pleased. In addition, we're being very strategic, where our coverage ratio — which as you know is the amount of money you make versus what you distribute — is approximately 2-to-1. That is incredibly healthy.

So we're demonstrating everything we can to the market to show that our unit price should not be trading where it is, and we'll continue doing that, just improving our financial health, improving our balance sheet and continuing to have good strategic growth. At some point, if we ever thought we would be rewarded for this — and by the way, today we would not — we would grow our distribution to help our unitholders. That is certainly something we would do, but today, the market is just not rewarding you for that.

TWST: We spoke earlier about fluctuations in commodity prices, but are there any other trends or themes or concerns within the midstream sector that are top of mind for you?

Mr. Warren: Yes, we must find market. If you're a small player, what I'm about to say doesn't really affect you that much, but in our case, we see a situation coming where we don't have a place to go with the product. Well, what's that going to do? That's going to collapse the commodity prices in all the different areas — crude oil, natural gas, natural gas liquids — if we don't find more market. Well, where's that market going to come from? It's going to be exports. It's going to leave our borders and go to other markets, and we are aggressively spending quite a lot of dollars to put ourselves in a really good position there. We're optimistic we will be in that position very soon.

TWST: What goals do you have for the company this year, and what will it take for the company to be successful in the future?

Mr. Warren: I have many goals, but let me talk about two that are probably first and foremost. One is, we need to get our debt-to-EBITDA ratio down closer to 4. We're well on our way to doing that. I'm so proud of the company. It's just performing really well.

And then, we need to find a way to get our unit price up. We have done everything that we've been told we needed to do: We've removed IDRs from the equation, we removed all complexity, we've improved our balance sheet, our coverage ratio is probably as strong as any large player you'll see in the sector, and yet we're still not there. So we'll continue to try to find ways to demonstrate to the market that Energy Transfer should be priced at a higher price than it is today.

TWST: Thank you. (MN)

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