Participants

Steve Newby, Founder and CEO of Summit Midstream (SMLP)

Nate Abercrombie, The Stock Podcast

Interview Transcript

Nate: Thank you Steve for coming onto IwtB. It's a pleasure having you, and it's an honor to get to talk about the midstream space with you.

Steve: Thanks, Nate, for having me. Congrats on your new venture. I think it's a very, very interesting model. And we really appreciate you giving us the chance to talk today as well too, and talk a little bit about Summit.

Nate: It's my pleasure, really. So, could we start out talking about your background? How did you first get involved in the midstream space?

Steve: Yeah, sure. And I get this question a lot. So I actually have been in the midstream space really my whole career, over the last 20-plus years. I started off in banking, in raising capital for midstream companies, both at the corporate level and then on investment banking, and then project finance. And then right before forming Summit in 2009, I actually ran a fund, prop fund for a large institutional investor who was directly investing in energy infrastructure. So that's what I was doing right before. And then, maybe it was bad timing, ended up being good timing for me, but bad timing for that role because the financial crisis hit, and sort of threw, if you were at any kind of investment manager or financial services company at that point in time, it threw things on its head.

But through that role, I had the opportunity to meet the energy capital partners, guys, large private equity firm, based out of Short Hills, New Jersey. And they actually, I worked with them on what I thought was possible in the midstream space going forward. And you gotta remember this was back in 2009, right? So the Shale Revolution, as we like to call it, was just getting I would say, it was known in the space if you were in the space, but just getting some true street cred from those who weren't in the space. And we sat down, and on a blank sheet of paper sketched out what ... I sketched out for them what I thought we could do at Summit.

Started the business in the spring of '09. Took it to ... ended up doing our first transaction, which we thought was gonna be M&A, actually ended up being much more of a development project. We built the system underneath the city of Arlington. So not only development project, a pretty hard one. A gathering system. Took the business public in 2012 at about a billion dollar market cap. Grew the business to about a total enterprise value of before sort of the downturn in '14 it was about 4 billion dollars market capital and about a billion three today.

So it's been a great run. Very fortunate. It's, I think, the combination of luck and a lot of very skilled people who have helped to build the business for me. And let's be honest, a lot of tailwinds at our back, particularly in that 2010 to 2014 time period in the space overall, in the midstream space overall. So yeah, it's been a fun time. The last three years, I've had more fun. I had more fun in the previous three years than the last three years, but you gotta have the good and the bad with both.

Nate: So you did mention you do teach, and I did see in your bio that you are, are you an adjunct professor at North Carolina?

Steve: I am.

Nate: Wow. Okay.

Steve: I am, yeah. So I'm a ... I get a lot of grief about this from my guys here at Summit. The joke is I make them call me Professor. But no. That is a joke by the way. I'm a UNC grad, vectorial. They actually, I helped start up about four years ago, an energy center within their graduate business school where you can go back and you can ... energy is now one of the areas you can focus on in grad school. And it's full cycle. It's upstream, downstream, midstream, renewables, power. And so it's a great program. And I teach the midstream class within that every spring. We're now placing students at Exxon, and banking, and energy banking. We have an intern that works from the UNC program that's working with us this summer. So, it's been a big success. Professor by the name of Steven Arborgas leads it. And he's an ex Exxon executive. So yeah. That's the teaching angle. I teach a midstream class there, and it's a lot of fun. Keeps me on my toes too.

Nate: Yeah I imagine. So you mentioned energy capital partners. I was hoping that maybe you could elaborate so that we're a source of funding for you and a partner for you to build Summit. But what is the relationship today?

Steve: Yeah. So they were instrumental, right? We founded the company together. They put a lot of faith in me. If you remember back in '09, their money was the ... if you had money, you had an advantage back then. Now it's a lot different today. But so they were instrumental. They ended up putting ... they were going initially had plans to put up to $200 million of capital behind Summit. They ended up putting north of a billion, to tell you how it grew of fund capital and Coinvest Capital. So very supportive with us.

So where are they today? So that was '09. It's a '10, 2010 vintage fund. They're on the back end of that fund today. Their model, this has been no secret to our investor base either, is they have to get their capital back at some point in time. And we've been doing that pretty consistently. Returned caps and capital to them last year as well too. So they're on the capital return side of things now. Of how do they exit Summit, I would say orderly. It's going to be very orderly. It's still a big investment for them. And they're still very, very involved and very in tune with Summit's success long term as well, too. Because it was a big investment for them, and by far their biggest in the midstream space to date, so they want to make sure we're successful, even when they exit.

So that's where we are today. We're pretty upfront about that. That's some of our issues, is their ownership overhangs, so to speak, on our valuation. But we think it's gonna be pretty orderly. And I think they've shown to be patient in the past, and I don't think there's any reason ... I'm pretty confident they're gonna be pretty patient going forward as well, too.

Nate: Yeah. How much do they own of Summit?

Steve: So they own 100% of the general partner, and then they own about 44% of our LP interest still. And then we also owe ... we did a transaction with a general partner back in 2016, a big drop down transaction of all of our Utica assets, and then some of the Bakken assets. And in that transaction, we structured it to where we also ... we have a deferred payment, the MLP does, to the general partners. We still owe them that, and that's due in 2020.

Nate: Okay.

Steve: And that today is about $500 million.

Nate: Yeah. So could you talk about Summit's footprint? Where are your areas of operation, and kind of where are you focused today, and how has that changed over time?

Steve: Yeah. So we had early on, when the strategy, given their energy capital size and amount of capital they wanted to put in the space, right, we had to build a company, not a project. And in building a company's much different than building a project. And so one of the key tenets we had early on was we wanted to be diversified across commodity and across geography. And we thought that was a good risk mitigation strategy, corporate risk mitigation. But also a good strategy for our customers, where we could offer an Exxon, which is panned out, we could offer an Exxon services in the Utica, and then we could also do services for them in the Delaware, which is two places we're doing services for them, and in actually in the Barnett as well, too. And we can do it across gas, we could go across crude oil. We could process, we could gather produced water. So it was a service offering decision as well, too, from diversity.

So if you look at us today for a small cap MLP, we're fairly well diversified. We're across six different states. Our big areas of operation are in the Bakken, in the Utica, and now our growing area of operation's in the Delaware. We also have a big operation in western Colorado. Slower growth area, but it's large for us today, too. We're about 75% natural of our cash flow today, EBDA today, we're about 75% natural gas and about 25% crude oil, or crude oil basins. That mix will change somewhat as the Permian becomes a larger piece of our portfolio, it's obviously a crude oil basin, Delaware is. But that's where we sit today. And we can go into a producer today, the larger producers today, and offer a suite of services across multiple basins. And that has helped us in the past. So that's where we sit today.

Nate: Yeah. When you say 75% of your cash flows or EBDAs, is natural gas ... does that also include natural gas liquids? Or do you just collect a processing fee and you don't have any exposure to the actual NGL?

Steve: Yeah, so all of our processing arrangements are fee-based. So we don't have any percent of proceeds on the processing side of the equation. So our soon-to-be operational Delaware footprint, it's all fee-based. Our processing facility in the DJ basin, which we're expanding today, all fee-based. And then our processing in western Colorado, all fee-based. So we have very ... overall we're 98% fee-based. Very small amount of commodity exposure in our portfolio that's really almost by accident, candidly. We get the largest piece of it is we get some drip condensate in western Colorado, and then we do have a POP contract on the gathering side in the Bakken, but again those are pretty small. So we're a traditional mid-stream fee for service, rate times volume company.

Nate: You mention diversification across basins as well as across the commodities, could you tell me, what are the core focus areas for summit today?

Steve: Yeah. I would tell you three for us today, and I think the core focus of where can we be important? We may not be as important as we wanna be today, but we think we can get there. Where do we think we still have good, accretive growth opportunities? And where can we offer producers multiple services and make money multiple different ways.

I think those three areas are the Bakken, where we gather all three commodities, water, gas, and crude, and in a lot of instances, we're making money on our system, from one producer, we may be making any two or three different ways, 'cause we may be gathering two commodities, or in some instances, all three commodities from a pack connection, so produce water, crude oil, and gas, associated gas.

Next would be the northeast. We've invested a lot in the northeast, primarily came at our general partner level. The slowdown over the last year has slowed the ramp of those assets, but they're still ramping pretty significantly, and we're set up to see some pretty significant growth as the northeast de-bottlenecked from a gas takeaway standpoint. We have almost 900,000 acres of dedication in the northeast. We're one of the largest gathering footprints there. And it's a big area of focus there, and we think there's gonna be consolidation and some organic growth opportunities as well, too.

The last area of focus for us from a growth standpoint is the Delaware. We tell people three years ago, we loved the Permian Basin, loved the Delaware, within that area, thought it was probably the most economical basin in the country. We wanted, though, to get there organically because acquisition-wise, we thought they were very, very expensive. People sort of looked at us like, yeah, who doesn't wanna get there organically? But we ended up doing it with Exxon. So we're building out a system today in the northern Delaware for them, gathering and process complex. We've also added additional customers. We have a large intrastate pipeline project that we've announced. We're in the process of making a final investment decision on that, and that'll diversify our services even more. And then the Delaware is a place where I think we'll also be, we're gonna add crude oil gathering by the end of this year, and I'm pretty confident we'll end up doing produced water as well, too.

So these three areas, the other big area for us today in our legacy positions is western Colorado, which is still a big area for us. We have scale there. The gatherers in that basin, the Pinos Basin, are basically us as Williams, and so we have a lot of scale there, a lot of ability to make money different ways, invest sets around, and really optimize the system.

Nate: When did you first developing your business in the northeast, and is it specifically or more specifically the Utica?

Steve: Mm-hmm (affirmative). So we service the Marcellus, as well, too, and we purchased that asset in 2000 ... it was 2013. So 2013, we purchased that asset from MarkWest. But our big growth area in the northeast is our Utica position. Like I said, it's almost 900,000 acres of dedication that's been growing from basically zero three years ago to now, between our two systems, we're moving over 700 million a day. We own 40% of a JV with Marathon, MPLX there on the gathering side in Utica. And then we also have 100% of the system in the dry gas part of the Utica that is growing significantly as that area gets drilled, and as some might know, the dry gas part of the Utica is enormous-size wells in varying perspective, even in a low-gas price environment.

Nate: Yeah, that's why I was curious what did you know or what did you see that enabled you to get into the Utica and the Marcellus early on, because it is the pre-eminent gas basin today, so ...

Steve: Yes, we had a lot of conversations and relationships with the producers. If you look at who we're there with today, and one of our biggest customers is Exxon, we had an existing previous relationship with Exxon. Ascent, who has a lot of ex-Chesapeake guys there, we have a previous big relationship in the Barnett with Chesapeake. And then we had a relationship with MPLX. We purchased an asset from them in the Marcellus, as I mentioned, and so when we had the opportunity to partner with them in the Utica, we were very comfortable with them there, so we had a lot of insight and knowledge in what activity was going on in the Utica and what the reservoir looks like. We did a lot of our own work on the reservoir there.

I would tell you it's only gotten better probably over time for us. It's just given the commodity price cycle, the growth didn't ramp like we thought, but it doesn't mean it's gone. It's still there. It just came on a little bit slower. Now we're getting the benefit of commodity prices coming back up particularly on the crude side, the condensate window and the wet gas window being heavily drilled now in the Utica.

The Utica's unique, too, Nate, because we have all three windows. We have a condensate window, so we're sort of like crude oil. We have a wet gas window, and then we have a prolific dry gas window. In our 850,000, almost 900,000 acre spans all three windows. So we can get the benefit of big, big dry gas wells, but we also get the benefit of a lot of drilling going on in the condensate window right now, too.

Nate: Yeah. Is there or are there basins out there today that you would like to be in other than where you are currently?

Steve: Yeah, I think our strategy today is mainly we think we have enough growth opportunities in those three core areas to really drive value for our union holders from focusing on there and concentrating on there. So for us to go to another basin and have to be a pretty significant opportunity, meaning with an existing customer, we think we could scale significantly, and if you think about it, that's what we did in the Delaware. We went with Exxon. We think we can scale that position pretty significantly, and I think we've proven that. We've now announced additional customers. We've now announced crude oil gathering, and now we've announced a large interstate pipeline to deliver gas from New Mexico down to Waha.

Nate: Yeah.

Steve: So it had to be a situation like that, but frankly, we're pretty focused on those areas, and scaling up in those areas.

Nate: Yeah. How has competition changed over the past, just call it five years, in your respective three core areas?

Steve: Yeah, it's a great question, and even though in the last eight, nine years since forming the company, it's an interesting question just 'cause I mentioned back in 2009, if you had capital, you had an advantage. Today, capital's frankly the easier thing to get for development opportunities. The harder thing to get is an actual good opportunity. And it's a tremendous amount of capital chase in the space, private capital chase in the space today. Public side's more challenging, but a tremendous amount of private capital.

So what's changed a lot? I would say the risk return dynamics. The producers, our customers have been able to successfully push more what I would call ENP risk, production risk, on a midstream company, anchorage only dedications. Even some people, not us, but some folks are paying producers for acreage, for midstream companies paying for acreage dedications, per acre fee.

Nate: Wow.

Steve: Yeah, so situations, you know, so producers have been somewhat successful given the level of competition, pushing the risk dynamic of midstream companies, and without pushing on the other end of that, the return dynamics, if that makes sense. Where there's risk, there should be more return, but when you have the amount of money chasing the space, that dynamic can get a little out of whack. So, you know, have an existing assets, being able to leverage those existing systems, having relationships, those are all important, particularly to the longer term producers who wanna make sure they're dealing with the guys who they're gonna be dealing with over the next five years or ten years, or so on, and so in some producers, it's not just the lowest fee. It's the full service, you know, what do these guys, can they provide? Can they do what they say they're gonna do?

Nate: Yeah.

Steve: But that's what I would say is different over the last few years.

Nate: And do you mind if I ask where you rank in terms of pre-eminence in your, you know, those three core areas, in relation to other GNPs?

Steve: Yeah, sure. So, no, I think that's a fair question. So it differs for where we are, so as I mentioned, in western Colorado, it's basically us and Williams that are the big gatherers. There's other guys, but we're the dominant ones in the basin.

The Bakken, it's really three or four guys now, and there's gonna be more consolidation in the Bakken, and there's some in the 14, 15 collapse, a crude oil, a lot of deals get cold in the Bakken, M&A deals. Those deals still have to be transacted on. It's a matter of when, and so there's three or four guys. You know, MLPs, there's Targa, there's Crestwood, there's us, obviously Hess as well, too. So and then Andeavor as well. I guess that's now gonna be Marathon. They're in that play as well, too, and I think that's the guys that we're gonna be slugging it out with there, and Kinder's there, as well, too. They bought Hiland System. That's who I think's gonna be there.

So we're probably, of those four, five, we're probably on the lower there. That's a basin we'd wanna scale up in. But we're still growing. We'll grow volumes in the Bakken, we think in around double digits this year, 10%-plus this year, so we're still growing, and we've added two new customers. So we're still, we're going through new customers as well, too.

Northeast, I would say we're one of the larger gatherers, especially independent ones, if you took out an EQT, or Intero, who obviously have their own production ENP sponsor who do most of their business. We'd be one of the larger ones, us, Marathon, our MPLX guys, and then Williams is big up there as well, too. So we're one of the larger ones up there, and I think we got a potential to be even bigger.

And then the Delaware, we're just sort of getting started, right? So I think we've made a little bit of a splash there with not only who our customer is, our large anchor customer, but now adding this service, this long-haul service, which is a great project for us, and a very needed project in the space, and I think you're gonna see pretty extensive growth from us over the next several years. We see a good three to four, maybe even five-year runway of growth in the Delaware from where we sit today.

Nate: What is the life cycle of an asset in the particular basin? How long would a system of gathering lines in a processing facility last by a midstream? If I invest in a midstream company, how long are those assets gonna be there?

Steve: Longevity of assets, yeah, and I think you hit the nail on the head. With gathering, it's definitely, so from a physical standpoint, five-point assets, processing assets, if you maintain them properly, are very long-life assets, 30-plus-year assets. You know, we have pipelines in this country that were built during World War II that are still operating today, so that's not the issue if you maintain the systems properly.

The issue with gathering becomes the resource underneath it, right? 'Cause you're gathering production from whether it's being produced, typically taking it either to a processing plant or to larger pipelines that deliver to an end market? So it becomes the time period of the resource underneath you, and this is where areas that interest us in areas we're in that have what we call stacked plays, and some of your listeners have probably heard about this, which is have multiple layers underneath the ground of shale rock or zones that can be produced from.

So the Delaware is a perfect example. There's, you know, people talk about five or six, some even say seven zones in the Permian and in the Delaware. Delaware, it's probably a little bit less than that, probably three or four that can be produced from, Wolf Camp, Owen Springs, Avalon, and so those give you a lot longer. You know, the Permian is, as some might know, has been producing for a very, very, very long time. And so those give you multiple options, drilling locations, so that asset could be, from a production standpoint, could be very, very long-lived.

So the answer's different. For, you know, from a technical engineering perspective, these assets can last a very, very long time. That's not an issue. The issue becomes from a resource perspective, 'cause if you're gathering, you gotta be gathering something, obviously, so that becomes probably the more gaining item.

Nate: Yeah, and then somewhat related, I guess very related, but also, I think very misunderstood with respect to midstream, commodity prices, so how much exposure a company like Summit Midstream has to the volatility and commodity prices, is it direct? Is it indirect? What are the dynamics there that you keep your eyes on and what maybe, what are you thinking about in terms of commodity prices? What is the true exposure for a company like yours? And then are you concerned about where commodity prices could be?

Steve: Yeah, so that's a great question, and it's largely a lot of times misunderstood, frankly. I mean, definitely was misunderstood and sometimes not explained properly. It's one of the reasons I think the MLP space is struggling today, because we've lost a lot of retail investors who got burned because they didn't this space was as exposed to commodity prices as it ended up being.

So for Summit, we're very little what we call direct commodity price exposure. So price of crude goes from $65 today to $60 tomorrow, it's not really affecting our revenue stream immediately. Or if it goes to $50 more, it's still not affecting our own stream immediately, 'cause we're primarily volume times fee. So what we care about is how much production is flowing through our systems, not necessarily at what price ultimate commodity is, particularly in the short term.

Think about it more as we're more interested in is production growing and demand for commodities growing overall? And we can talk further about that if you'd like about some of the positive things going on with space. But that's typically what we're focused on now. We definitely have, and everyone in the oil and gas space has some level of indirect commodity price exposure, right, so if crude goes, which it did, from $105 in the summer of '14 to $40 in 2016, we are gonna be impacted to some level because our customers are going to produce less of that commodity, and we're gonna have less flowing, less volume times rate. That's the simple truth, and between the peak production period, which was really spring of '15 through the end of '17, both natural gas and crude oil, total volumes were down. Crude about over 4%, and gas about ...

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Steve: Total volumes were down. Crude, about over four percent, and gas about two and a half percent from a total volume produced standpoint. Those numbers have now come back up pretty significantly, through '18, but they were down through that time period. That's going to have an impact on midstream players. Some, it had more of an impact because some of our peers and some companies within the so-called MLP space do take more direct mine price exposure. For us, it didn't. Our cash flow from '16 to '17 was basically flat, even though commodity prices were down significantly over that time period.

Nate: Right.

Steve: So we just are exposed directly a lot less, but still indirectly, for sure, exposed. And I think the issue we had in the space was people were, everybody was lumped together about exposure and it ended up being wrong. Unfortunately, a lot of value was destroyed.

Nate: Yeah. So could you talk about the longer, or you mentioned the growth potential and what the tailwinds are of what... From your perspective what are there? What are the most important ones that you're looking at?

Steve: Yeah. I think it's first to put a little, at least a little bit of historical context in play when we talk about fundamentals of the industry and what we're seeing. I think what we first get it, frame it a little bit, and let's just take the last, you know, the last 10 years. I think the nirvana of the Midstream industry was 2010 to 2014. Tremendous development opportunities as a shell production became prolific and we really had to re-pipe the country, right? Our demand centers didn't change, where we were getting our supply from changed significantly, and how we were getting our supply changed significantly. And so we had to put in a tremendous amount of infrastructure. The space was putting in 60 billion plus of infrastructure a year, during that time period. So it was a developer's dream. You saw... and during that time, you saw tremendous amount of capital flows into the space, public and private, to feed that $60 billion a year of... that people like us needed to build things.

Then, we call it the Thanksgiving Day Massacre of OPEC. In 2014, right before or right on Thanksgiving, crude prices dropped tremendously. The next three years really were a devastating cycle to the space. I think one, just given the overall volatility, and how far and fast commodity prices dropped, how many restructurings were done in the EMP space, and some in midstream space. And then really, the length of the cycle. Right, a three year cycle, commodity price time, that's a long... that's a long cycle.

We started to see things turn fundamentally probably last summer, I would say. But the Midstream space is a laggard both on the down side, and then I would say, as fundamentals turn up, on the up side. For instance, NAPE Summit increased our financial guidance twice coming into the end of '16. Increased. So we didn't see as fast a decline.

It really hit us in '17 and really part of this year, really, the first... you know, we're flat for '18 over '17, so it's really hit us some in '18 as well, too. But we'll get that eventually, that uptick in fundamentals that started summer of last year, I think we're gonna get it by the end-

Nate: Yeah.

Steve: ...of this, of '18. So I think of the Midstream space as being, if you want to use a rule of thumb, about a year behind, either the turn down or turn up in commodity prices and cycles. Because, just 'cause crude goes to 70 doesn't mean we automatically see increased flows on our system immediately. Takes a little bit of time for people to get out there and start drilling.

The three things... I think three important things have happened, and they all evolve around the same issue over the last three years. And that is we can now export three commodities that we couldn't four years ago. We can export crude oil, natural gas, and natural gas liquids. The ability to export those commodities is a game changer for the energy space. And I will tell you, most people in the space today still don't... we still don't fully appreciate what it's going to mean. 'Cause we're just now starting to export crude oil, right? A meaningful amount. Um, a few million barrels a day. We're exporting three and a half VCF of natural gas a day, that's gonna go up to nine VCF by the end of '19. You know, we produce about 80 VCF a day, so that's a meaningful number. And we're exporting natural gas liquids, propane, ethane now as well, too.

So that's key. How's the market gonna balance with the US is now an exporter of these commodities as well too? And remember, Midstream guys, we care about balance and steady growth based upon demand. And that demand, if we can export it, that demand can be in China, in Asia, in Europe, in wherever, and I do think those are important factors that three or four years ago, we could even do it in the space, and now we can, and so I think that bodes well for the energy space overall and I think it bodes well for Midstream's guys, 'cause not only does it help stabilize commodities, it also, or should over time... we're also involved in getting those commodities to the markets to export and a lot of companies are involved in the exporting of those commodities from the midstream space, so... sorry for the long-winded answer, but that's...

Nate: No, I love long-winded answers, so I appreciate it. I'm curious, do you see opportunities for Summit further downstream, so on the export side? And it would be great to hear more about the Double-E Pipeline, because I wasn't familiar with that new development.

Steve: Are we gonna go out and develop an LNG terminal for multi billions of dollars? The answer's no. Not at our size. But that doesn't mean that those developments don't help us ultimately, but what I just mentioned on supply and demand fundamentals. But where we are increasing our downstream exposure, we're doing it in a pretty big way, is we announced in the first of this year, what we call our Double-E project, it's the Eddy Express Project, to really take gas from New Mexico, which is the northern Delaware, which is growing rapidly, take residue gas from there and deliver it to Waha, which is a hub in west Texas, and from Waha, others will take it to the Gulf Coast to be exported, Mexico, to be consumed, or other places.

Well, that project's a big project. We announced a BCF project and we've recently said that it's had significant interest and we may even look to upsize that project if we get enough demand. And so that is adding in the origination of the Double-E Pipeline is at our lane processing plan in the Delaware. So we'll have a BCF, maybe even more, pipeline originating in our lane plan, so you can honestly connect the dots and assume we're gonna end up expanding our lane plan as well, too. It's not the only place we'll pick up gas from, but it's gonna be the origination point.

So that adds a service, that's a downstream service, takeaway pipeline, FERC-regulated, 'cause it crosses state lines, and we think a great add for us to commercialize our business in the Permian, and further commercialize it, and integrate for our customers as well, too. And the response we've gotten for the project is, I would say, tremendous. Very good response from producers, other processors, and industry participants.

Nate: Maybe I missed it, but are you the sole developer, and going to be the sole owner of the Double-E?

Steve: Yes. We're the sole developer, and what we've said is we've gotten a pretty high level interest of having partners in the project. And right now, I would say we'll probably end up having a partner, and my guess is it'll be more of a strategic versus a financial partner. But right now, we're the sole developer and we'll still be the majority owner and operator of the... of this.

Nate: Okay. So I would like to talk about the recent FERC ruling to the extent that you want to talk about it. I know that it's been kind of a-

Steve: A little bit of a hot topic.

Nate: Yeah, exactly. There's some companies that if you... so you said that you did listen to Chris's... his interview, and he alluded to the fact that there are definitely some companies out there that are suggesting that they don't have as much exposure to the negative impact from the FERC ruling, or the FERC order, but there are some that really don't have any exposure, or very limited exposure to it so could you talk about what it is and then secondly, how it impacts your business?

Steve: Yes. So, simply, what it is, is the FERC historically has allowed mass limited partnerships, which are not tax-paying entities directly, right? The tax burden is borne by our unit holders, and in many cases, shielded for some period of time, a tax liability, that's the benefit of the MLP structure. FERC historically has still, even though MLPs are not taxable entities, has allowed in its tariffs for companies to recuperate some amount of tax liability with the thought process being that ultimately, the owners of the partnership do have tax liability. Right? So just 'cause the MLP itself doesn't, doesn't mean its ultimate owners do not, and so it allowed companies that had tariff-based pipelines to recuperate potential taxes in those. So they did.

In their rights, it recently came out with a clarification statement, policy statement on that, and disallowed that, so did a complete 180 on that, and no longer will allow in tariffs forward income tax allowance for non-taxable entities. So that's the issue and as you can probably understand, for those that have those assets, it can create a pretty substantial issue for them.

The good news is, Summit is not affected by it at all. We don't have any assets that are affected by it today. Our Double-E Pipeline is negotiated rates, so we wouldn't even go to a tariff rate until after ten years to fifteen years where our existing contracts run out. And then obviously we're going into it, this isn't an existing... we're developing it, so we can plan for that eventuality in how we set our rates and determine our rates and all that upfront, whereas those who have existing assets in the ground, have existing assets in the ground, set up their structures and return structures to recuperate their cost based upon an income tax allowance, obviously have a much bigger issue. But that's the issue, and for us, it really isn't an issue today.

Nate: One of the things I really consistently heard over, well, it was the last two conferences that I attended when I was on... back at my previous firm, was that fundamentals... some companies, some management teams were saying that fundamentals haven't been this good, maybe ever, and a lot, if not all of the management teams were saying fundamentals are really fantastic and valuations just do not reflect the fundamentals of the Midstream space today. Would you say that's a fair assessment of what's going on in the marketplace today for you?

Steve: What management team doesn't think they're undervalued, right? So... I'm not gonna join that crew that... No, I think... let's piece it up a little bit, the question. I think it's a stretch to say fundamentals are better today than they've ever been. I think that's a... I've mentioned I've been in the space north of... probably too long, north of 20 years. I remember when Rich Kinder split out of Enron, I looked at the financing to do that. I would stretch to say, like I've mentioned before I thought 2010 to '14, from a fundamentals standpoint, ability to allocate accretive capital was tremendous. At 60 billion, I mentioned, I think, we're... our belief internally is that number's probably 20 to 30 billion today. So it's been halved, in our opinion today, going forward. Still, 20, 30 billion's not a small number, but it's nowhere near... so I think it's a stretch to say they're better than they've ever been.

I do think fundamentals have gotten much better. I think our customer base is much more efficient today than it was before going into the commodity price cycle of '15, '16, '17, and that helps. Healthy customers help us as well, too. So I... that's what I would say on... I think they're much... they're better than they've been over the last three years and I think the space is healthier.

I think the problem on valuations is multilayered. I think if you use the valuation metric you used before 2015, you'd say MLPs are extremely undervalued. The problem is that valuation method is no longer the dominant method being used today by the investor base. Historically, and I think Chris mentioned this on his interview with you, historically valuations were distribution-growth models. There was an unwritten rule with the investor. I'll pay you a distribution, I'll grow it, and then when I need that money back to finance something, you're gonna give it back to me. And then I'll increase your distribution, and we'll do this cycle every time, and you're gonna value me based upon that distribution and my ability to grow it.

That dynamic in our opinion, in Summit's opinion, has changed dramatically over the past 18 months, two years. It's now much more of a enterprise-value-to-EBITDA model, what are the true intrinsic value of the asset, I don't care what your distribution... for some... I don't care what your distribution is. I care what your actual assets are worth, your company's worth.

That's a big change, big change in the space and it's largely due to two things in my opinion, is one is, as we increase the size and space from an 80 billion dollar market-cap space at a trough in 2008 to an almost 600 billion dollar market-cap space at a peak in 2014. We had to bring in a lot of new investors. So it's new investors entering in the space. And then what we had after the downturn is we had a lot of retail investors who really valued that distribution-growth model leave the space, and they haven't come back. And so, the institutional investor now dominates those discussions and their outlook on valuations are different so that's, again, another long-winded answer, but one that says, on valuations, I think the metric has changed and a lot of the volatility we're seeing today in the Midstream space, in my opinion is, the investor base trying to figure out how and where to value these companies and where things are gonna settle out.

Now, the good news is we have a... now have a fundamental backdrop that is getting better, and not getting worse like it was in '15, '16, '17. So I do think there's gonna be real opportunity to make... for investors to make a lot of money as... if they do the work and they understand companies, and as this market shakes out, I think you can catch some real upside as valuations settle down and fundamentals show, and companies show they can start to grow accretively again.

Nate: And which fundamentals are you most excited about? I mean, is it debottlenecking, is it demand, is it growth and supply?

Steve: Yeah, so obviously, I mentioned one already earlier. We think our liquids volumes are gonna grow double digits this year. And we see a good pathway of growth even into '17. We think we have a enormously valuable and growing footprint in the Delaware with a very large anchorage holder in Exxon, who we're partnered with there. And we think... and we're adding additional services. So we think that's a great position.

On the gas side, NAPE, we... although gas prices have been very... still are very challenged, they've been very challenged for a while, frankly. I mean, this isn't anything new. I like to tell people, 'cause, the most recent conference I was at, which was just last week, there was a lot of moaning on gas and I said, well, look, you gotta remember our northeastern, which is one of our huge gas plays for Summit, our northeastern producers were selling gas for less than a buck over the last three years in a lot of shoulder months. Best basis in the country now today is northeast, if that tells you how things quick can change. So the gas market is much more used to a low-price environment operating, frankly, than the crude oil market was. Gas increased by almost 10 BCF last year. So enormous amounts of increase, and look, a lot of the gas increases we're seeing are in associated gas areas, the Permian, Stack/Scoop, but we're still seeing significant growth in our northeastern gas position. In fact, we expect very significant growth in '19 in that position. So, again, less complete commodity price environment, more are drillers still incented to drill, make in returns, that that production's gonna throw through our pipes?

Nate: Yeah.

Steve: And we think that northeast is a place where, in 250 gas, our producers can still make very good returns.

Nate: And grow.

Steve: And grow. And grow production, that's the key.

Nate: And what about from an operational perspective? Are there any things that you've done over the last couple of years that you'd like to stress or talk about? Just how the business has improved, how you've become more efficient, anything along those lines?

Steve: Yeah, no, I think there's a couple areas. One, western Colorado, where I said we have a large footprint; it's not a high-growth area, but it's also not a high-cap Ex area for us and one of the reasons is we debottlenecked there and can, because of our footprint, we can move molecules around more efficiently. We can connect supply where we may be short in one area on a compression standpoint, we can connect via pipe to an area where we're long compression, another... and use that compression. And we've done those. And those are projects that get a lot of public discussion, 'cause they're not huge... they're ten million, 5 to ten million dollar projects; they're very incremental to us. And you need those. We're doing that in the Bakken, we've added two new customers here in the last two quarters, we're getting volumes... I've already gotten initial volumes from one, going to get initial volumes from the second here in June, and those are, again, sub-ten million dollar projects, but very incremental.

The big piece we did in the Bakken was we added a Dakota access, DAPL Pipeline connection, so our producers can access that pipeline and we charge them a small fee to do that, that's been incremental to us and it's also helped our producers. The northeast is the same, we're looking at a debottlenecking project right now in the northeast to increase capacity on our system significantly, less than 50 million dollar project that would significantly increase our capacity, so... so things like that, but I view those as normal course NAPE of really optimizing your assets and that's the kind of things we're looking at every day. We're obviously looking at growth opportunities with customers, but we're also looking at how can we make our assets more efficient?

Nate: How do you think about the... is it a return on investment, or is it a payback period type of computation that you're doing, or, how are you thinking about those investments and what they mean for your cash flow profile or is it margins, or... what's most important for you when you make those investments?

Steve: Distributable cash flow accretion is... it doesn't mean that it'll be distributed, because we're at the point now where we're gonna build coverage even where we are, we have two big projects coming on this year that will do that naturally for us. But distributable cash flow coverage is really the metric we look at, which ties in really to return on capital employed, which we're big believers of, and unlevered returns, which we're big believers of. So we look at every project in those lenses and it's gotta cut mustard, I mean, we've walked away from deals that have gotten some... in every base, we've walked away from deals that we thought were just not accretive enough. One of the issues... you know, we didn't do a deal in '15, '16, '17. 'Cause we thought asset values were still too elevated to reflect the risk in those assets and we chose to grow organically, and although our growth coming out of the cycle in '18 has probably been a little bit slower than the market wanted, we think long-term it's gonna be very accretive to our unit holders to have made that decision.

Nate: Yeah. We've just heard a lot of really positive developments, description of positive fundamentals in the industry, what about headwinds? What do you... what are you looking at? What are you keeping an eye on that maybe concerns you or maybe there's nothing out there that concerns you at this point, I don't know, just curious what you think about-

Steve: There's always things that concern me. I think... I mean... any CEO, if he says there's nothing that concerns him, I'd run for the hills. We live in fear a lot of times. You know, look, I'm concerned by the level of capital that's chasing deals, private capital, there's over a hundred... this may blow your mind... there's over 130 Midstream management teams. Private Midstream management teams.

Nate: Wow. Wow.

Steve: Yeah.

Nate: How many public? Less than a hundred?

Steve: A hundred in pub... well, MLPs, there's, after the announcements of the last couple weeks, yeah, probably less than 100. Or right at it. So you know, we felt like given a significant downturn in the industry in '15, '16, 17, given that number of people changes, you know, the amount of capital that had been raised and was chasing that risk-return got somewhat out of whack, right? So that always concerns me. Are we investing capital properly, meaning accretively? How do we protect ourselves on that, 'cause you, it is risk... we have to take certain risks. We can try to protect ourselves as much as we can but we have to take certain risk, so are we protecting ourselves as best as possible? Obviously, things like Health, Safety and Environment, HSE, always, you know, you always worry about, in my chair, getting our people home safe at night, back to their families, are we doing everything we can from a safety standpoint to be good stewards and then from an environmental standpoint, good stewards to the communities we operate in. So those things always concern me as well.

And then, frankly, this capital markets dynamic concerns me. The public markets for most MLPs are pretty much shut down. Tremendous amount of private capital that we have access to, but the public markets are pretty well shut down and that's a concerning feature, 'cause MLPs need capital to grow. I know the industry talks a lot about a self-funding model, but at the end of the day we're gonna end up needing capital to grow. We just need to make sure, I think, as an industry, we're better stewards of that capital going forward.

Nate: Could you talk a little bit about your capital need? You said two big projects. Do you have any capital needs this year and next?

Steve: Yes. Great question. So we don't... we really... we're in the good position of our leverage is about three and a half times, three point six times our cash flow, that's how we measure it, that's pretty conservative. And that's really conservative when you consider we're funding... we've almost fully funded the Permian development, the Delaware development, 'cause it'll come on here in the next couple months. We're in the middle of funding our DJ plan expansions, so those two aren't even on yet, but we have pretty much fully funded those. So our capital needs actually for the rest of '18, and I would say even for '19 as it stands today, are fully funded. So we don't have any capital needs going forward.

Now, we're working on stuff all the time, of accretive projects and trying to grow the business so things could change, particularly as you look into '19, 'cause we're already in the middle of '18, but as we sit here today, there's no capital markets need... equity capital markets need for us in '18 or '19. So we're in a great position, right? From that standpoint, we gotta execute, we gotta get these projects online, we've told the market they're gonna really... both are gonna come on by the end of the year, along with other expansion up into Utica and then what is setting up for us is really in '19 as those projects start contributing really in '19, true free cash flow. We're set up for what we think is a pretty attractive next 18 months.

Nate: Yeah. And did you say that deferred payment is due in 2020?

Steve: So it's due in 2020, and we've done... and when we did the transaction in 2016, we told the market we weren't gonna wait til 2020 to finance it.

PART 2 OF 3 ENDS [00:46:04]

Steve: 2016, we told the market we weren't gonna to wait til 2020 to finance it. And, we really haven't. We've issued equity twice now. We did a common deal and we did a preferred equity deal last November, $300 million. And I think you'll see us use the next two years, mainly through cashflow growth in the business, to really set our balance sheet out to make that payment in 2020. An important feature, it's sort of a forward-looking feature if you will, but it's all public, out there on Summit is, when we mark, give the value of the deferred, and we do it every quarter, and today the un-discounted value due in 2020 is $517 million. That has embedded management assumptions in it for growth for those assets, right? And, a little unique feature that is if you take that $517 million, if that's what's due, it implies that in '19 we're gonna see about 50 to 60 million dollars of cash flow growth just from the drop-down assets over 2018.

So, our business overall in 2018 will do $292.5 million. That's some the mid-point of our guidance. So, she takes 50-60 million just from the drop-down assets. You can see, we're anticipating a pretty significant growth. And, oh by the way, this drop-down assets don't include our Delaware position coming on us, either. So, yeah, the answer is to your question is, it's due in 2020, but we think we've been financing it all along and we think by the time 2020 gets here, it won't restrict us from a capital standpoint. We positioned the balance sheet to be able to make the payment.

Nate: Yeah, obviously not asking for guidance, but just curious how you're think about the potential range of outcomes in terms of cashflow or incremental coverage that you could accumulate over the next two to three years that could enable you to, essentially, just pay down the deferred payment with cash on hand?

Steve: Yeah and I think we're our revolver and still be within our leverage-

Nate: Yeah.

Steve: -matrix. What we've told our investor base and our analyst community date is, is our coverage targets are four tons levered in one point two tons plus coverage. We think we're going to be able to get there, if not half the time of the deferred payment, pretty close to that time period. And what that means is, over the next two years, we'll be building coverage significantly and we're gonna keep moderate, our leverage pretty moderate so we do have that capacity. We're gonna keep leverage moderate mainly through those underlying cashflows related to the deferred payment growing significantly. Because the unique feature that the deferred payment is it's based on the price, it's based on '18 and '19 ... the average of '18 and '19, EBDA times six and a half so the MLPs getting these assets for six and a half times.

Nate: Wow!

Steve: Which is very creative.

Nate: Yeah, no kidding. I didn't realize that.

Steve: Yeah, so if the cash flow doesn't show up, right? Then the number's not 517, the number's much lower.

Nate: Yeah.

Steve: So, the structure is working to protect the MLP investor exactly like we thought when we set it up. At the end of the day, the MLPs gonna get these assets for six and a half times. And if it pays 517, it's gonna have the leverage capacity, significant leverage capacity and coverage and everything else, to do that. Would we lever up slightly above four times? We would if our equity is at $16 a unit, I can tell you for sure. We're not gonna dilute our existing unit holders to go to four and a half when we know that'll be de-levering back down to four pretty quickly through growth of those assets still. So, we feel really good about where we are related to the [inaudible 00:49:19], we don't think there's this big financing overhang. I think the market foresees there to be more of an overhang than I think there really is because we think we've positioned ourselves pretty well and that the mechanism works so that if the cash flow doesn't show up and give us leverage capacity, that numbers comin' way down.

Nate: Yeah. And the construction of double E?

Steve: Mm-hmm (affirmative)-

Nate: And the timing around that, does that change things in terms of just your ability to fund things going forward? Yeah.

Steve: Yeah. That's a great question. Does it stack up on each other? Yeah. The answer's no. And the reason is, it's an 18-month permitting process with the FERC. So our spin in '18 and '19 is very level 'cause we are working on getting our permit. We may buy pipe and get set to do construction. Our real spin comes in 2020 and we will have financed this deferred payment or set ourselves up to make, to pay it before our heavy spin comes in 2020. So we don't think it stacks up on us, we actually think it lays out pretty well. And oh, by the way, just to mention, I think we're also as I did before, I think we're also going to end up having a partner who will take on a big portion of those financing costs as well too.

Nate: Yeah. So, to distribution ... you mentioned if your equity is at $16 a unit, you won't be issuing new equity. Why is your equity at $16 a unit if ... you know you're an MLP that has not, you never cut the distribution. You were pretty emphatic in the most recent earnings call that it's secure. What do you think the investor concerns are?

Steve: Yeah, this is one of the biggest questions I get, interesting enough. If I sit down or talk to the investors and they go, "Well, why are you yielding, you know, 15%? Why are you at 16?" I wish I knew the answer, frankly, 'cause I'd correct it if I knew it. I think there's a combination of factors and then I'll tell you a little bit about what we think, where we think this plays out. But I think it's a combination of people concerned about our financing of the deferred payment, like we talked about. Are we gonna have to go out and issue equity? Are we gonna have to cut our distribution to help finance it? I think the concern over ECP and their access, energy capital partners and their access, right? Can we, can they get out effectively without causing damage to the unit price or things like that. So, I think that overhang is there as well too.

And then I think, look, I think, as important, if not the most important, is we gotta show that we can accretively grow the business. We were flat in '16 and '17 and then we surprised the street by coming out with '18 guidance, relatively flat. The reason we're flat in '18 is because we have two projects coming along and then our growth in the Nor ... are coming on later in the year, will contribute later in the year than I think that folks thought they were. Then, most important is our growth in the Utica. Yeah, backed up about six months due to some land issues there from one of our big customers. So the growth we thought we were gonna have in '18, it's not that it went away, it literally just got pushed to the right. And so it is now stacked up some growth in the '19 for us as well too.

Perversely, Nate, that growth getting pushed to the right helps lower the deferred payment so the MLPs gonna get that growth cheaper than it would've if it had come in '18. 'Cause it's the average of '18 and '19 CBDA, right? So that growth income in '18, right? There gonna get it for less. So I think that's the combination of factors. And then, look, I don't know how much more emphatic I can be about the distribution. We're sitting here at three and a half times levered, with CapX fully funded over the next 18 months. My contention is, MLPs don't cut their distribution 'cause they want to, they cut it 'cause they have to. We have nothing in our line of sight today that says we're gonna have to cut our distribution. Could something change? Sure. I mean, I think any company would say that, but there is no reason today, other than us trying to get some theoretical yield and manipulating the distribution to do that, for us to cut our distribution. That's just not in our line of thinking today.

I think our line of thinking is, we're gonna to grow this business accretively. We're gonna show the market we can do that and we're gonna grow into our yield. I think as we do that, I think it will be a combination of us growing into it and the market realizing, hey look, this is ... these guys meant what they say. There's nothing more I would love, personally, than as the founder of the company to come through this cycle where 80% plus of the space cut their distribution in Summit, or 70% of space. So, it's just not ... I'm a little perplexed as to why people think we will because when you look at her from a financial standpoint, the business is not telling us that at all.

Nate: Well, let me play devil's advocate, just for a second and I'm gonna just echo kind of what you said earlier, but ... your investors today or potential investors today, don't really value your business on yield anymore, so ... you know, what we're concerned about is EBITDA multiples and P/E multiples or some other multiple and the intrinsic value of the business. So, again, not concerned about your distribution yield, so why don't you just cut it and improve the other metrics by paying down debt or doing something else with the cashflow, growing the business organically, more quickly and cut the distribution in half?

Steve: I think, I think ... look, I think that's the easy answer, but let's be honest. We still have a large segment of our investor base that values that distribution as well too. So it's not simply all of our investors are “Hey look, we don't value at all.” We still have a large segment of our investor base that does value the stability of the distribution. And we're not gonna ... we're gonna let the business tell us what to do rather than try to get to some market, what we think the market wants. And right now the business isn't telling us that we need to cut it. Our leverage is moderate and fairly low. Our growth is paid for and so we're gonna, we're gonna focus on executin' and I think on a accretive growth.

Nate: Now, that's a good response to that. I am just curious ... longer term capital structure, you know, there have been these sort of roll-ups or roll-ins and roll-whatever's of the LP's into the GP's or the GP into the LP. How are you thinking ... I mean, I know that it's hard to think about that with energy capital partners, the fund that your in and the timing associated with that fund, but how are you thinking about it longer term?

Steve: I think as ... Look it's, you always ... MLP space always came to a point in time where you had to address your IDR structure. That's not new, I don't think, in the space. What's new now is just how quickly you do that. And I do think sometimes we forget that general partner's can provide a lot of support and a lot of value to MLPs. Look at our situation, our general partner's provide a tremendous amount of value to the MLP with its drop down structure and so on. So sometimes we forget about the positives that come from GP and LP relationships and focus on the negatives, which is perceived now as the IAR's. That was always a negative at a certain point in time. We're gonna have to address it at a certain point and time. I don't know that it's top of our list right now of things that we think are huge issues just 'cause it's about $10 million to $12 million a year in IDR's is what we pay, we're in the 25% splits. It's gonna have to be addressed, but again, there's, I think probably bigger things for us right now to address, frankly. The deferred payment being one of them.

We're still ... we still assume the 25% splits are cheap piece much more, has been much more of a benefit than a burden to us over the last several years. But overall, the space is now really demanding to address your IDR's at a certain point in time. Eliminate them, frankly. Or at least reset them and we're not ignorant to that fact and at some point we're gonna have to do that as well too.

Nate: Maybe this is a dumb question, but I'm just curious, could energy capital partners create a new fund and just purchase it's 40% stake in the LP and the GP from the current fund? I mean, a 15% return is not a bad return so I'm ... especially based on today's cost of capital. Is that a possibility? Is that even feasible?

Steve: So, theoretically, yes. Logistically, no, because funds don't, private equity funds, don't like to cross fund like that, there's big conflicts of interest as you would imagine. In every fund, different fund to a private equity firm, is really like a different business almost. Its different investors so if you're an investor and their actually out raising a fund now, if you're an investor in that fund but not an investor in the fund that owns some of that GP, of course then you'll say that you're paying too much for that Summit GP. And if you're an investor in the current fund and then on Summit are not in the new fund, then they'll say too li ... so there's inherent conflicts. So most, a lot of private equity firms don't like to do that and so I don't think that's a logical outcome here as well.

Nate: And then, just one last question on capital structure, just in the space ... how do you think this sector, I mean, I'm just asking you to pull out your crystal ball and tell me what you think this sector might look like in terms of capital structures and C-corp's versus MLPs three to five years out.

Steve: I think it's, it's difficult on the C-corp's to MLP. I think, I think MLPs are here to stay because our businesses have intrinsic value and the tax shield still has value to us certain investor base and still pretty, pretty large investor base ... so I think it's still gonna be here. I think it, you know it matters what you're, also what you're tryin' to accomplish too. I mean, if you get very large, liquidity matters more. C-corp, the liquidity comes with a C-corp matters, a ONEOK strategy or other strategy, but I think Enterprise has proven you can be large and still be an MLP and have very low liquidity.

I think more importantly, probably, the better question is, what is the space from a fundamental value standpoint look like here over the next three to five years? And I do think that's changed. I think the nirvana I spoke about a 10 to 14, we saw double digit distribution growth and you saw heavy capital investment. I think those days are going to be hard to replicate, let me put it that way. I think you're gonna ... but those days pre- or prior to 2010, that's not how the space grew up anyway. It was three to five percent. Maybe three to 10 percent sort of cash flow growth a year or ... and you had yields at seven to eight percent or six to nine percent, sort of in that range that grew at two to three/four percent a year. I mean, it was a much different space from a growth standpoint and the expectations of growth. That to me, because that all translates into how our company's gonna grow from an EBDA cash flow standpoint.

If you're C-corp or you're MLP, that's what our investor base, that's what they're gonna be looking at in value. I think growth's still there, it's just not gonna be as high as it was. And coverage is gonna be higher and leverage is gonna be lower as a result. And I don't think that's all bad for the space. I think once the space can find its valuation footing, I think our space, just like the EMP space came out of this cycle in better shape, I think our space will come out of this cycle in better shape as well too, frankly.

Nate: So knowing what you know about your business, assuming you were a potential SMLP unit holder and you're looking at this investment, you're considering it ... what would you focus on? What do you think ... what would, what would, is the most important thing for you?

Steve: I think I would pick up on a couple things. One is the CEO just told us he's got two projects plus Utica growth is highly visible over comin' on over the next year to 18 months, right? He's told us the distribution's very secure as he sees it today so I'm getting paid 15% to ... if I gotta wait six months, nine months to see that growth materialize, I'm getting paid 15% while I'm doing it. Pretty attractive. I just bought more units in the open market a couple months ago because it was pretty attractive to me as well. And the last thing I need is probably more units of Summit, but ... because I've got a lot of 'em. But I see the same thing. And so that's number one from just an investment, philosophic standpoint. I think the important things for us, you gotta get comfortable with is, you gotta get comfortable. 'Cause they may have to have credibility on what they're saying about growth, number one, but also about how they're gonna finance it for payment.

Have we done what we said we were gonna do? And I would encourage people to go back and look at my transcripts over the past two years, if they want to be put to sleep at night. And look at on how we've communicated and have we done what we said we were gonna do as far as pre-funding it and setting ourselves up to where we're not gonna be, put it in a bad position to fund this deferred. I think the answer is we have done that, but I would say check the record. Look at what we've done because I think you gotta get comfortable on that as well too, to make sure we don't put ourselves in a bad spot. Then finally, do we have assets in areas in relationships with key customers and areas to be able to deliver on the growth and commercialize the businesses that we're talking about? I think we do. I think this, this '18 sort of pause in flat in growth over '17 is just that, I think it's a pause and I think you're gonna see more and we're pretty excited about '19. I think there's gonna be some, I think there's some real opportunity in Summit and, like I said, lord knows you're gettin' paid 15% to wait. So that's what I would say as far as the investment proposition.

We put an interesting slide, I pointed to some of it to your listeners to go to our website. And we have an interesting evaluation slide in there that basically says, hey look, if you just take Summit and we trade to where our GMP peers are trading at today, it's another four box a unit. If you take Summit and then add in consensus 2019 estimates, wall street estimates, it's ten plus box. So if you think wall street or us are anywhere close to what I've said today on how '19 looks for us, you have a pretty significant value proposition in our units, here today.

Nate: What about risks? I have to ask. What about risks?

Steve: Like I mentioned, no two ways about it, we all commodity price risk in one form or fashion, right? Do we have another, another downward trend? Heavy, hard downward trend? I think we've had a little bit more upward trend in crude oil than we anticipated so we don't need a $100 crude oil, but commodity prices are always there. Other risks for us are timing related ... look, we've had one issue on timing in the Utica. You know, does it keep getting pushed to the right? I think our deferred payment structure protects us from that frankly. 'Cause if it keeps getting pushed to the right, that $500 million dollar number I mentioned before is gonna come down. So I think we're protected there. But those are the two things I think ... and then the final thing I will add is making sure we can stabilize our legacy businesses so they don't eat all of the growth from our growth businesses. If our legacy businesses are declining and they eat up all of the growth from our new businesses, that's a problem. We think we can. We think we'll do that. And we think we'll see significant growth from some of the capital we are deploying now and some we'll deploy in the future.

Nate: I appreciate that. All of that. The last question that I try to ask all management teams is just a funny or interesting story that you can recall from a sale side conference or a meeting with an investor, so. And anything that just comes to your mind, you know, that gave you a chuckle or you think is funny today.

Steve: I've had ... look, I found it and took the business public and had it ... gone on a couple of bond road shows and equity, you know, so I probably got a lot of stories. But there is one in particular that stands out in my mind and I can laugh about it today, I don't think we laughed about it too much when it happened. But we were on a road show for, actually this is a debt investor meeting story. I think it was, it was for our first bond deal and so we actually did a road show for it and we're out in, on the West Coast. Very early morning meeting, 7 a.m. meeting and with a large debt holder out on the West Coast. You know and we're all fired up, go in and we're meeting with this analyst at the fund and he proceeds to tell us that, effectively tell us, in fact it wasn't even implied, that what we had done in building the company was easy and he could have done it, in fact he probably could have done it. So, sitting there during the meeting, you can imagine, you know, somethin' that's near and dear to my heart so you can imagine the-the sort of my reaction, although we kept our cool, both me and our CFO. And so we sat there and took it for a little while, you know, and while he's sitting there telling us, “Well, you know, what the heck? I could have done this. This is easy.” And then I, then it sorta, that sort of ended when I looked at him and said, “Well, you know look, if you feel like you could do this given how we sort of evolved the company, you probably should leave your current job and go do it.” And he sort of back off a little bit. Then I think he was trying to test us and test some of our metal and ... but it's probably the closest, frankly, the closest we've ever been to just getting up and walkin' out of a meeting. It was that, sort of that disparaging and not a-, it wasn't really about our business, it was really, fairly personal. It was surprising. From a shop that's actually very well regarded, I won't name names, but you know, it was ... if I had been management at that shop, I would have been embarrassed by his actions too. But we sat through it and got through it and interestingly enough, those guys, not that bond deal, but the next, our second one, those guys actually came into the bond deal. So they hold our bonds today.

Nate: Is that guy still working there?

Steve: You know, that's a good ques-, I think he is. I think he is, I'm not sure though.

Nate: Oh, really?

Steve: Yeah, yeah. I gotta lot of interesting stories, but that one still sticks out to me today. We actually laugh about it still today. We probably weren't laughing about it for about a week after it, but we look back today and it's actually sort of funny.

Nate: Yeah, that's good you can laugh about it. Well, Steve, thank you so very much for coming onto the Podcast. It's been a real, it's been a real treat talkin' to ya. It's been really interesting and educational and really helpful from just an investment perspective. I mean, it's been super helpful for me and ... so, thank you so very much for coming on.

Steve: No, I appreciate it and again. I-, congrats on all your success and I appreciate you giving us the opportunity to tell our story. We'll always take that opportunity. So, thank you as well. Take care.

Nate: Yeah, you too, Steve.

Steve: Thank you. Bye-bye.

PART 3 OF 3 ENDS [01:07:30]