Company Name: MPLX
Company Ticker: MPLX US
Date: 2016-04-28
Event Description: Q1 2016 Earnings Call

Market Cap: 9,815.23
Current PX: 32.215
YTD Change($): -7.115
YTD Change(%): -18.091

Bloomberg Estimates - EPS
Current Quarter: 0.244
Current Year: 0.921
Bloomberg Estimates - Sales
Current Quarter: 618.500
Current Year: 2581.625

Q1 2016 Earnings Call

Company Participants

- Lisa Wilson
- Gary Heminger
- Donald Templin
- Nancy Buese
- Frank Semple

Other Participants

- Kristina Kazarian
- Jerren Holder
- Unidentified Analyst
- Eric Genco
- John Edwards
- Michael Blum
- Timm Schneider
- Shneur Gershuni – UBS
- Shneur Gershuni

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the MPLX First Quarter 2016 Earnings Webcast and Conference Call. My name is John, and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Please note the conference is being recorded.

And I'll now turn the call over to Lisa Wilson, Director of Investor Relations.

Lisa Wilson

Thank you, John. Good morning and welcome to the MPLX first quarter 2016 earnings webcast and conference call. The synchronized slides that accompany this call can be found on mplx.com, under the Investors tab. On the call today are Gary Heminger, our Chairman and CEO; Frank Semple, Vice Chairman; Don Templin, President; Nancy Buese, Chief Financial Officer; and other members of the management team.

We invite you to read the Safe Harbor statements and non-GAAP disclaimer on Slide 2. It's a reminder that we will be making forward-looking statements during the call and during the question-and-answer session that follows. Actual results may differ materially from what we expect today. Factors that could cause actual results to differ are included there, as well as in our filings with the SEC.

Now, I will turn the call over to Gary Heminger for opening remarks.

Gary Heminger

Thanks, Lisa, and good morning. If you please turn to Slide 3, we delivered solid financial results in this first full quarter as a combined company, and are executing on the plans we've laid out for 2016. Adjusted EBITDA was $302 million and distributable cash flow was $236 million.

Last week, we announced an increase in our quarterly distribution to $0.505 per common unit, while maintaining a strong coverage ratio of 1.18 times. We also reaffirmed our distribution growth guidance of 12% to 15% for the full-year 2016, and expect a double-digit distribution growth rate in 2017.

Yesterday, we announced a binding agreement for $1 billion private placement of convertible preferred securities with a select group of investors. While this transaction was originally contemplated with MPC, we elected to take advantage of strong investor interest in equity securities with attractive terms for the partnership.

The combination of some opportunistic ATM issuances in the first quarter along with this transaction provides for anticipated funding needs for the remainder of 2016 and into 2017, therefore enabling us to continue our execution of attractive organic growth projects that will contribute to distributable cash flow and long-term value for our unitholders. We are committed to pursuing a strategy that balances capital investments to meet the needs of our customers with the sustainable growth of the partnership.

In response to market conditions, we previously announced a substantial reduction to our 2016 capital investment plan, and we remain focused on managing both capital and expenses across the business. Another example of how we're executing our 2016 plans is the acquisition of MPC's inland marine business, which took place in the first quarter.

MPC clearly demonstrated its commitment to the success of the partnership, as we acquired the marine business at a supportive valuation in exchange for MPLX equity, eliminating the need to access the public market to fund the transaction. In addition, MPC provided another measure of support by waiving first-quarter distributions and IDRs of a newly issued common units in exchange for the marine business.

Upon completion of this acquisition, our sponsor still retains in inventory, $1.5 billion of MLP qualifying earnings, which we expect to be made available to the partnership over time. With strategically located assets, a supportive sponsor and strong relationships with our customers, we are well-positioned to deliver on our 2016 plans and to continue delivering sustainable returns well into the future.

Now, let me turn the call over to Don to review our strong quarterly operational results. Don?

Donald Templin

Thanks, Gary. Turning to Slide 4, you'll see information for our Logistics and Storage segment. A key highlight during the first quarter was the acquisition of MPC's inland marine business. These high-quality assets are backed by our fee-for-capacity contract with MPC and are expected to generate approximately $120 million in annual EBITDA, of which three quarters would be recognized in MPLX's 2016 EBITDA based on the timing of the transaction. The marine business further diversifies our earnings mix and provides us with another source of stable cash flows.

During the quarter, we also commenced construction of the Cornerstone Pipeline and anticipate placing it into service by the end of this year. The pipeline will transport condensate and natural gasoline produced in the Marcellus and Utica to MPC's Canton refinery in Ohio.

We continue to pursue our larger Utica build-out strategy, which has the potential to deliver liquids produced in the Northeast to refineries in the Midwest and pipelines to Western Canada. Together with MPC, we have the ability to accelerate and lead the development of market access by expanding existing pipelines in connectivity and completing additional storage capacity.

Our Utica strategy is a great example of commercial synergy projects that connect our leading midstream position in the region with MPC's downstream operations. Including our highlights for the L&S segment was an expansion of the Patoka-to-Robinson pipeline, which adds 20,000 barrels per day of crude oil supply capacity to MPC's refinery in Robinson, Illinois. This expansion was completed in conjunction with a light crude upgrade project at the refinery, further illustrating our strong relationship with MPC.

Shifting to our Gathering and Processing segment, Slide 5 provides an overview of our operations in the Southwest, where we have diversified Gathering and Processing assets across established resource plays. During the first quarter, we processed over 1 billion cubic feet per day and processing plant utilization increased to 82%.

For the full-year 2016, we forecast process volumes in the Southwest to increase by approximately 15% and gathered volumes to increase by approximately 5%. Growth will be driven by expanded producer activity in our east Texas operations, the further development of infrastructure to support Newfield STACK play in the Cana-Woodford shale, and the addition of our new Hidalgo Complex in west Texas.

Moving next to our operations in the Marcellus and Utica, Slide 6 illustrates the productivity of this region. While other U.S. gas stations are in decline, the Marcellus and Utica continues to grow and our producer customers are an integral part of this growth. Currently, these plays account for over one quarter of U.S. gas production at over 23 billion cubic feet per day and over one-third of total gas rigs in the U.S. are in the areas of the Marcellus and Utica, where we operate.

On Slide 7 is a summary of our gathering and processing operations in this region. Processed gas volumes reached almost 4.3 billion cubic feet per day during the first quarter, a 9% increase over the previous quarter. As a result, utilization of our facilities also continues to improve averaging 81% in the first quarter.

Producer customers continue to adapt to market conditions and we were working closely with them as their plans for which gas development evolve. We anticipate Marcellus and Utica processed volumes to increase by approximately 15% over the prior year.

In addition to our leading processing infrastructure, we have an extensive gathering footprint throughout the region. We expect gathered volumes of rich and dry gas in the Marcellus and Utica to increase by approximately 30% over the prior year.

The primary driver of our gathered volume growth is occurring from the highly prospective dry gas areas of the Utica shale. Along with gathering and processing, we are the largest fractionator in the Marcellus and Utica, handling the majority of liquids production in the region.

On Slide 8, we have provided a summary of our NGL fractionation volumes, which are expected to increase by approximately 25% over the prior year. We produced nearly 280,000 barrels per day of purity products in the first quarter, an increase of 9% over the prior quarter. Our growth was driven primarily by the recovery of additional ethane.

In March, ethane recovered from our facilities supported the first ever waterborne ethane shipment from the eastern seaboard to a petrochemical complex in Norway. This historic event marks the start of large-scale waterborne exports from the U.S. Our facilities are also the origination point primarily in the West and ATEX pipelines, which provide producer customers with the flexibility to access major North American petrochemical markets.

As new world scale petrochemical facilities are completed in the Gulf Coast and potentially the Northeast over the coming years have been sourced from the Marcellus and Utica will be an important feedstock to meet this growing demand.

For the heavier portion of the NGL barrel, we are leading the development of the efficient solutions in the Marcellus and Utica to maximize netback prices for our producer customers. We now have the scale with our NGL fractionation and logistics facilities to be able to load and deliver unit trains bound for demand markets outside the basin.

In March, we delivered the first unit train to propane from our Hopedale complex to delivery points in the Midcontinent. Being able to load unit trains brings the efficiency to the marketing of NGLs by lowering real transportation costs, which improves differentials for producers. We also remain focused on driving the development of longer-term NGL solutions that will increase the basins connectivity to both domestic and international markets, as well as enhance local demand.

These solutions include an NGL export terminal from the East Coast, participation in long haul pipeline projects to the Gulf Coast, and a butane to outlook project, all of which will provide producer customers with optimality and flexibility for their future NGL production.

That concludes our operational summary. And now I'll turn it over to Nancy to review our financial position and strategy.

Nancy Buese

Thanks, Don. Slide 9, provides a summary of our capital expenditure program for 2016. Our organic growth forecast remains in a range of $800 million to $1.2 billion, and we expect maintenance capital to be approximately $60 million. The midpoint of our CapEX range represents a decrease of approximately $650 million from our initial 2016 forecast of $1.7 billion. We continue to aggressively manage our capital expenditures and work closely with our producer customers.

Our focus remains to complete projects on a just-in-time basis and to continue to increase utilization of our existing facility. Throughout the course of 2016, we'll continue to evaluate our capital spending program and seek to optimize our investments as we take into account the forecasted changes in our producer drilling activity and the infrastructure needed to support our customers drilling growth plan.

Turning to our financial highlights on Slide 10. We reported adjusted EBITDA of $302 million and distributable cash flow of $236 million for the first quarter of 2016. Total segment operating income attributable to MPLX was $345 million for the first quarter.

Strong volume growth in our Gathering and Processing segment continues to drive operating income in addition to higher throughput volumes and tariff rate increases in Logistics and Storage segment. We forecast fee-based net operating margin of approximately 95% for the full-year 2016.

The bridge on Slide 11, shows the change in adjusted EBITDA from the first quarter of 2015 compared to the first quarter of 2016. The prior year quarter we increased adjusted EBITDA by $238 million. The addition of MarkWest operation accounted for nearly all of this increase, while higher tariffs and pipeline throughput volumes accounted for the majority of the remaining change.

Slide 12, provides a key summary financial highlights and select balance sheet information. At the end of the first quarter, we had $1.67 billion available on our revolving credit facility and $62 million available on our intercompany loans with MPC. We remain committed to maintaining an investment grade credit profile and during the quarter, our investment grade status was reaffirmed by one of the rating agency.

We continue to target a leverage ratio of around 4.0 times by the end of this year. Our consolidated total debt to pro forma adjusted EBITDA ratio was 4.3 times at the end of the first quarter. We expect to continue reducing leverage by growing our EBITDA and we do not anticipate increasing our net debt in 2016.

As Gary mentioned, yesterday, we announced the financing of $1 billion of convertible preferred securities with select third-party investors. In relation to this transaction combined with approximately $300 million of opportunistic ATM issuance during the first quarter, but those are anticipated funding needs for the remainder of 2016 and into 2017.

On Slide 13, we reaffirm our 2016 forecast, which is based on our expectations for producer volumes, forecast to commodity prices, and our strategy of deploying capital on a just-in-time basis. Excluding the impact of the goodwill impairment recorded in the first quarter, 2016 net income remains in a range of approximately $325 million to $485 million, adjusted EBITDA remains in a range of $1.25 billion to $1.4 billion, and DCF remains in a range of $970 million to $1.10 billion. We have a strong record of growing distributions to unitholders. Based on our quarterly financial performance, the Board of Directors of our general partner has started distribution of $0.505 per common unit.

First quarter 2016 distribution represents a 23% increase over the same period last year and marks the 13th consecutive quarter since our IPO in October 2012, that would increase the distribution. We reaffirm our guidance of a 12% to 15%

distribution growth rate over the prior year and we expect a double-digit growth rate in 2017.

We target a long-term distribution coverage ratio of 1.1 times and reported a strong coverage ratio of 1.18 times for the first quarter 2016. We are well-positioned to manage through the current environment and remain focused on execution initiating our financial and operational targets.

MPLX is one of the largest gas processors and fractionators in the United States and has an extensive crude and refined products logistic system. This provides us with an exceptional opportunity to continue pursuing high-quality organic growth projects. Combined with a compelling backlog of synergistic projects with our sponsor and the ability to pursue high-quality acquisitions, we look forward to successfully demonstrating the unique competitive advantages available to our partnership.

And now, I'll turn the call back over to Lisa.

Lisa Wilson

Thanks, Nancy. As we open the call for questions, we ask that you limit yourself to one question plus a follow-up. You may re-prompt for additional questions as time permits.

With that, we will now open the call for questions. John? John, we're opening the call for questions at this point. Thank you.

Q&A

Operator

Thank you. And our first question is from Kristina Kazarian from Deutsche Bank.

<Q - Kristina Kazarian>:

Hey, guys. Great deal on the preferred. Could you guys – just some a couple of quick question on this first. Did you guys preview this deal with the rating agency, or is there any kind of color you guys could give me on how they're going to account for how much equity credits and just general thoughts on that first?

<A - Nancy Buese>:

Sure, Kristina, we absolutely talked to rating agencies all throughout the process and previewed every piece of this with them. And our understanding from them is, we will receive 50% equity credit on the transaction and that's from all three agencies.

<Q - Kristina Kazarian>:

Sounds great. And then limiting it to my second one is going to be about just the Northeast. I know, NGL pricing uplift kind of become a theme to you recently. So can you just – could you guys touch such a higher percentages Northeast NGL? Can you offer some color on what you're thinking up here and kind of translate that into numbers we saw on the slide deck. So I think it looks like it's 15% versus 20% now on processing guidance and frac came down a little bit as well. So just that would be great?

<A - Nancy Buese>:

Yes, absolutely happy to talk about that. Yes, Marcellus volumes are continuing to grow and we are seeing quarter-over-quarter increases there. We're also seeing in the Utica a little bit more in terms of the dry-gas volume, those are continuing to go up. We did see a slight decline in process and fractionator volumes there, but it is also relatively small numbers at this point in time.

But gathering in the Utica has increased because of Gulf port, we also brought our Jefferson County gas project online to support the resources. So there are some good things going on there. So fundamentally, we will see volume increases although we have slowed that down a bit in terms of a forecast as you've noted.

<A - Donald Templin>:

Yes, Kristina, this is Don as well. I mean that we are very encouraged by the strength of the business in the Marcellus and the Utica. And as you know, we are very much tied to what our producer customers are doing. And so they manage their portfolio dynamically.

I think the fractionated volumes and the process volumes maybe seeing a little bit of downward movement there. But the gathered volumes have been incredibly strong, and that's actually offset any of the downward movement in the other. So a very dynamic time. We are encouraged by the improving NGL prices.

I think, our producer customers are very encouraged by that. And we are also very committed to working on projects that allow them not only to realize the improvement in the NGL pricing, but to reduce the differential – the base in differential that currently exists. We spent tremendous amount of time working on those projects and we're making very good progress on them.

<Q - Kristina Kazarian>:

Perfect. Thanks, guys. A nice job on the preferred again. Thanks.

Operator

Our next question is from Jerren Holder from Goldman Sachs.

<Q - Jerren Holder>:

Good morning. Just wanted to start off with just given that the drop-down has went down to-date, it's about $1.3 billion worth of equities through the preferred and ATM so far. How should we think about, I guess, expectations for further sponsor support for the remainder of the year, and I guess, into 2017?

<A - Gary Heminger>:

Sure. I think that one of the things that we thought was really important about the convertible preferred was to take off, if you will, any potential overhang or concern around our ability to grow our business and to fund our business in an appropriate manner. We're very pleased with the sponsor support that we've received around the marine drop, it's a fantastic transaction for MPLX. We're very excited about the assets that we have there.

In terms of our core business, as I mentioned when Kristina asked her question, it – it's very sound. And so our expectations is that, we will be supporting a substantial amount of our growth in our distribution growth through organic projects. The great thing about having a sponsor like MPC is that there are opportunities if you would like to supplement that growth.

We've always anticipated that there would be some acquisitions that we would be making over time. We expect to grow our core business through organic growth. But we would expect to be making acquisitions over time, whether they're third-party or from the parent sponsor. So I'd say core business is the priority right now. We have an opportunity to access or to be supported by MPC. But I think we're very comfortable where we sit looking into 2017.

<Q - Jerren Holder>:

Thanks. And I guess as a follow-up with the 2016 equity funding largely done and some pre-funding for 2017. Should we expect further opportunistic prefunding of the 2017 CapEx program through ATMs, or anything else for the remainder of the year?

<A - Nancy Buese>:

Yes, you've got it just right. With the $300 million of equity raised in the quarter as well the $1.0 billion on the convertible preferred, we really have taken the way our financing needs for the balance of the year. However, depending on how market conditions continue to evolve over the course of the – the rest of the year will certainly be opportunistic as we think about prefunding further into 2017.

Operator

Our next question is from Jeremy Tonet from JPMorgan.

<Q - Unidentified Analyst>:

Hi, good morning. It's actually Andy for Jeremy. Thanks for taking our question. The first question is, we saw the guidance for Marcellus/Utica processing volumes, you touched a bit lower for 2016, might that push back the timing on some of the G&P projects related to be in service for 2017?

<A - Nancy Buese>:

Yes, absolutely. And that's the way you're seeing with – as a result of our capital expenditure program. So as the producer volumes get moved out at times, you'll see our sending follow suite. We can wait longer to bring projects online. You'll see that through increased utilization, or maximizing all the capacity at our existing facilities and we won't be bringing on new capacity until it's needed.

<Q - Unidentified Analyst>:

Okay. But incrementally from the last time you provided an outlook and an update on those volumes in CapEx, nothing's really changed, this is just updating...

<A - Nancy Buese>:

That's right.

<Q - Unidentified Analyst>:

Okay. Got it. And then the follow-up to that is on CapEx for Cornerstone, can you remind us how much that project is costing in total? And then how much is left to spend between the second and fourth quarters of this year? And then also how can we think about the EBITDA ramp up into next year? And then lastly, is MPC the only counterparty? Sorry about the three questions in one.

<A - Gary Heminger>:

Yes. So on Cornerstone the total CapEx is – will be a little over $200 million for that project. We expect to have that project online by the end of the year. And originally, MPC had made the initial commitment on volume. So if you recall in terms of how we arrived at this project. It started off as a solely in MPC project to move condensate from the Utica/Marcellus area to the Canton refinery. As we were thinking about the project, it became more clear to us that that we could provide an industry solution that that seem to make a lot of sense. And we expanded the size of the pipeline.

So over time, we would expect that there would be third-party – there would be third-party volumes. But in the early phases of the business or the operation, we expect that it's predominately to move condensate on behalf of MPC to the refinery.

Operator

And our next question is from Eric Genco from Citi.

<Q - Eric Genco>:

Hi. Good morning. I just wanted to follow-up on a couple of questions. Just the – I guess, the takeaway options for NGLs, for the Marcellus and Utica. You mentioned the unit train and improving basis differential there. I was just wondering, if you could touch on sort of how that is improving the basis differentials within number to it? And then also, I guess, long-haul to the Gulf Coast, you mentioned that is the potential solution you're looking at. Is that something you expand on a bit?

<A - Donald Templin>:

Sure. Sure, this is Don. In terms of the railing to the East Coast, that project is advancing very well. Our expectation is that, we would load unit trains at our Hopedale facility. You probably saw or heard in our comments that we were able to load our first unit train in the first quarter, which gives us all sorts of confidence and should give our producer customers confidence that we are able to do that on a regular basis.

So the expectation is that, we would move that propane to the East Coast. It would then be exported to international markets. We have not provided in publicly information on the uplift. But our expectation is that, it should be substantial.

<Q - Eric Genco>:

Okay. And as a quick follow-up, I mean, I just wondering maybe we should reinvent and I guess, major still 7 [ph] was originally scheduled for 4Q 2016 than it was 2017, and now it's TBD. Is there – are there any incremental concerns that any – in anyway tied in. And we know ME2 was delayed a bit the last time through. Are you hearing anything different there, or is there anything that concerns you? Is that hide ME2 or are we reading too much into it?

<A - Gary Heminger>:

I think you're probably reading too much into that. We are big fans of ME2, because we think that's an important gateway or ability to take away NGLs from the basin. So we are very supportive of that project, but we also think our rail project is a very good project and one that is necessary to ensure that, we are meeting the timing and the needs of our producer customers. But I don't think anything should be read into that.

<Q - Eric Genco>:

All right. Well, thank you very much for your time. Really I appreciate it.

Operator

Our next question is from John Edwards from Credit Suisse.

<Q - John Edwards>:

Yes, good morning, everybody. Just a couple of follow-ups here. So on the volumes that you are expecting to deliver outside the region, could you give us any detail on that, I think you indicated, both the unit trains as well as volumes I think export expected?

<A - Gary Heminger>:

John, I don't think we've given that type of information yet. I mean, clearly we are interested in making sure that we're evacuating the basin. But that would be – that will – in some regards be dictated on pricing and where our producer customers can get the best backpack.

<Q - John Edwards>:

Okay. And then the unit train volumes here is, I mean, in a way you're alluding the fact that it's compete – you've got competition from a – from ME2. I mean, is it – the intention here to these to be complementary, or was it thinking there?

<A - Gary Heminger>:

Well, I think it's important that our producer customers have multiple ways to get to markets. And so the unit train project is offering a solution to our producer customers. The second thing about it is that it is very flexible. And we can ramp up or ramp down volumes around the unit trains.

And I'd say the third thing is that, because we have the capacity – unit train loading capacity at our facility, we thought it was a solution that we can get to market quickly to provide our producer customers the – a reduction, if you will, and the discount that they were seeing in the basin this past summer and potentially in the coming summer.

<Q - John Edwards>:

Okay, that's great. And this last one just any – I know you guys have guided that you think you've done dropdown, you don't – needed any additional dropdowns and with the big reduction here in the cost of capital, the rally and MPLX equity, I mean any thought here to doing – considering in additional dropdown and you maybe boosting the distribution growth outlook as a result?

<A - Donald Templin>:

I think we are always evaluating ways to improve unit holder value. So I think the first quarter was a fairly challenging environment around unit pricing and cost of capital. We are very encouraged with the sort of the recent performance of the MPLX units. We think that is due in large part to some of the actions that we've taken as well as the very positive in our view outlook for 2016 and 2017. So, as the cost of capital decreases, it certainly increases our optionality around being able to do things that increase unit holder value. I guess, Nancy any other...?

<A - Nancy Buese>:

We would offer relative to the drops, I think they're just one part of the portfolio. As Don mentioned earlier, we'll be looking at third-party acquisitions. We'll be looking at a lot of opportunities for internal organic growth and drops are also part of the portfolio with that a whole suite of sponsor tools we can use. So drops are certainly part of the optionality we hope to preserve.

Operator

Our next question is from Michael Blum from Wells Fargo.

<Q - Michael Blum>:

Hi, thanks. Good morning everyone. Just couple of questions for me, one, I'm just curious on the preferred offering. If you can just give us a little insight into the market has specifically trying to think about is why do you decide to go preferred, I mean I understand the economics of that, but just I'm wondering is it not an appetite in the market generally for common equity in your common equity specifically or did you choose to do this anyway just trying to get a sense of the different options and balancing?

<A - Nancy Buese>:

Hi, Michael, I think the good news is as we demonstrated by the better common equity we did on the ATM throughout the quarter. There is interested in MPLX equity and we had no problem raising those dollars. As we continue to think about it, the equity yield has moved around quite a bit in the course of the quarter and we like the optionality to lock in a rate. Again that's a known amount and we'll pay that over the period until conversion. So we feel very comfortable about locking that in.

It also gives us the ability to indicate that we've taken our financing needs for the balance of the year off the table. And I think with everything we've been faced within the quarter that's a very important messaging component and it also demonstrates that, while the transaction was originally contemplated to be done with MPC. We did, as Gary mentioned earlier have very strong investor support to do this transaction. So we feel like it was just a good set of economics and we feel like it's nice to take better the issue off the table.

<Q - Michael Blum>:

Okay, great. And then in terms of distribution growth and I'm sort of thinking more long-term, so you got the double-digit out there for 2017, but you got the dropdown portfolio, you got here pretty delineated organic growth, you got the $69 billion of potential projects. How do we think about kind of out your growth, do you think double-digit is sustainable long-term, it seems like you've got the tools to do it or with that sort of drop to signal-digit over time?

<A - Gary Heminger>:

Yes, we've not given guidance as you know past 2017. I think you did mention we do have a lot of tools that will allow us to support the business and the partnership over the long-term. So I think we are as well positioned or better positioned than many or most of the MLPs to deliver that strong growth and we're very confident in 2016. We're very confident in the double-digit growth in 2017. And I don't see anything in the underlying business that would cause us to be concerned about that.

Operator

Our next question is from Timm Schneider from Evercore.

<Q - Timm Schneider>:

Yes, hey guys I got more of a more of the technical questions. You have paychecks is running essentially full and there's really no other ethane solution at payments. I understand you can't move ethane on rail. So is there a scenario for your NGL production is actually going to be I guess kept because you don't have any work for the ethane to go?

<A - Frank Semple>:

Yes, this is Frank. Is this Timm?

<Q - Timm Schneider>:

Yes.

<A - Frank Semple>:

Okay, so you really start with the issue around what is the – what amount of ethane is going to be required to be recovered just because of the downstream quality issues, what we call must recover ethane. And we got a lot of headroom right now in terms of the available capacity on ATEX and Mariner West and you probably know that Mariner East is now moving ethane to their markets hook facilities.

So that – it's an ethane and propane mix that gets split in markets hook, but it opened up a whole another set of markets for ethane out of the East Coast. So this near-term there's really no problem from a must recover and a gas quality standpoint, because of the existing capacity and factors again a lot of headroom in the basin for the ethane just going to be produced longer-term, you'll see more and more projects come online that could help to provide more market access to Don's point earlier. So the short answer is no problem with ethane.

<Q - Timm Schneider>:

Have you guys seen any interest from customers along the Gulf Coast and kind of saying, hey look, what can we do about, maybe securing some longer term ethane supply?

<A - Frank Semple>:

Absolutely, yes there's a lot of interest you started your question on the ATEX subject, but clearly I appreciate customers in the Northeast are doing a great job of optimizing their capital, making decisions around rich versus dry and including the ethane production that would be provided through our de-ethanization facilities and a lot of that – those netback issues that they're considering really are driven by the increasing demand for ethane in the Gulf Coast because of the petrochemical complex down there. So yes, it's become the bigger part of the equation from a netback standpoint ethane is and that's all good news.

<Q - Timm Schneider>:

Last one for me, just how much is it on per gallon basis actually rail liquids from uneven trend down to the Gulf Coast from one of your facilities?

<A - Gary Heminger>:

We've not provided that information Timm.

Operator

And our next question is from Shneur Gershuni from UBS.

<Q - Shneur Gershuni – UBS>:

Hi, good morning guys. A couple of follow-ups, I guess the first one is kind of to the Timm's last question there. You have made some very strong ethane remarks in your prepared remarks. So I'm trying to square this away here, because your response to Timm and I think an earlier answer to Kristina suggested that there were some challenges on the ethane side.

I'm just trying to understand kind of where you expect the rejection to be, because I would assume that the Marcellus would turn on last in terms of the entire ethane rejection reversal. And then if this is a sort of set up to producers to drill differently than they are now, just wondering if you can provide a little bit more color on that?

<A - Frank Semple>:

Shneur, this is a Frank. Let me just make sure, I understand your question. They're really from an ethane production standpoint in the Marcellus and the Utica really there's not – a concern our problem. Ethane has been a critical part of our planning process for five years. And so it's really the way that we designed our system and also interfaced with the downstream markets has been the function of – as I said earlier making sure that we have enough the deethanization in place with a lot of headroom to be able to meet the downstream aspects for the interstate gas pipelines.

And then demand, it becomes much more of a market driven demand for deethanization facilities and pipeline facilities to be able to support the producers objectives relative to their marketing for ethane. So that that's kind of the high-level perspective, so now the point you ask the question again.

<Q - Shneur Gershuni>:

So given that – those comments and the strong comments that were made in the prepared remarks, is this sort of a setup for something camping with Centennial or some other outlet that you guys are exploring that you're not ready to discuss yet, is that how we should think about that?

<A - Frank Semple>:

Well, the earlier comments really were meant to provide you the perspective that ethane is a critical part of the value chain for the producer customers and I really see this is a ethane is a really good new story it's become a much more of a global product that's being provided by the U.S. our Northeast facilities and our producer customers are benefiting from there, but there's no hidden message there, the fact that we feel really good about the flexibility our operational flexibility in our complex in the Northeast to be able to support both the operational issues around ethane as well as the commercial objectives of the producer customers.

<Q - Shneur Gershuni – UBS>:

Okay, thank you for that. Just as a couple quick follow-ups here, the reduced growth profile that was guided to is this a shifting of CapEx into 2017 and 2018 or some of the projects been I guess been put on ice for a little bit. And I was also wondering if you can also comment also balance sheet related to when we think about drops going forward I know you have in specifically said one. Do we go back to a 50-50 debt equity split, now that the preferred has been placed into the marketplace?

<A - Nancy Buese>:

Yes, Shneur I think the way to think about your first question is really everything is tied to the producers drilling forecast. So from volume forecasting to CapEx, it's all driven by what we anticipate their needs being. So projects are not being canceled. They're being pushed back to meet the forecasted needs.

So nothing is off the table. It's really just the timing issue around when facilities are needed and when we need to spend the dollars. And then relative to your financing question yes its anticipated we said that we'll offer no new debt net debt in 2016, because we are working on getting our leverage ratio down and doing that predominantly through the growth of EBITDA and so the way to think about financing after that is really a return more to a 50-50.

Operator

I'll turn the call back over to Lisa for closing remarks.

<A - Lisa Wilson>:

Thank you, John. Thank you for joining us today and thank you for your interest in MPLX. Did you have additional questions or would like the clarification on any of the topics discussed this morning, Kevin Hawkins and I will be available to take your call. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.