



Midstream Gas Assets Acquisition & Divestiture Summit

Robert G. Phillips
Crestwood Midstream Partners, LLC
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Discussion Topics

- Crestwood Midstream Partners
- Midstream Valuation Trends
- The Perfect Storm
- MLP's in Crisis Mode
- Commodity Outlook
- Current M&A Themes

- Formation and Strategy
 - After 30 years in the Midstream sector (the last 20 years as a CEO or Senior Executive of publicly traded companies) I wanted to try something different.....
 - Formed Crestwood in December 2007 to acquire and/or invest in Midstream assets, companies and projects by combining my industry experience with private equity capital to find good value offering superior returns
- Partners and Investors
 - Recruited 5 former employees with wide ranging Midstream expertise allowing us to identify and evaluate investment opportunities across the natural gas, NGL and crude oil value chains
 - The Crestwood Team has 130 years of experience in the Midstream sector and has committed \$5 million to Crestwood
 - Attracted 3 well-known private equity firms to invest in Crestwood
 - Kayne Anderson Capital Advisors – a leading energy investor since 1989 with \$9 billion under management. Kayne Anderson Energy Funds III & IV made a \$145 million commitment to Crestwood
 - The Blackstone Group – formed in 1985, Blackstone is one of the world’s leading investment and advisory firms with total assets under management of \$116.3 billion. Blackstone BCP V made a \$275 million commitment to Crestwood
 - GSO Capital Partners LP – founded in 2005, GSO is a leading credit-oriented alternative asset manager with over \$22 billion under management. GSO has committed \$75 million to Crestwood

- With \$500 million of private equity commitments our strategy was to be a “value” investor
 - Initially conducted a deep dive analysis of each segment of the value chain (i.e. gathering, processing, fractionation, transportation, storage and terminals) to determine best value for investment or acquisition
 - Originally looking for returns that were superior to the typical mid-teens total return profile of publicly traded midstream companies with an appropriate amount of leverage
 - Competition from strategic buyers, infrastructure funds, mezzanine players and private equity (directly and through sponsored management teams)
- We encountered 2 different markets in the past 2 years
 - 2007-08(1H) was characterized by plenty of cheap money, lots of available credit to leverage investments and boost returns, many competitors resulting in extraordinarily high trading and transaction multiples
 - 2008(2H) -09 was characterized by very expensive capital, limited credit availability to leverage your investment, fewer competitors, a return to historical trading and transaction multiples and a significant increase in investment returns threshold

Midstream Valuation Trends

- High prices and resulting supply growth over the past few years have driven a historic build-out of midstream infrastructure in a race for organic growth
- The influx of institutional equity capital and cheap debt in 2007 provided MLP's with record investment capital and distorted values and returns
 - 2007 Midstream M&A transactions set records
 - \$10 billion Midstream MLP deals
 - Purchase prices ranged from 10 -17X Ebitda
 - Leverage ranged from 5-8X Ebitda
 - Significant number of deals sold by private equity to strategic buyers
- Despite record midstream earnings in 2008, M&A activity dropped off as transaction values skyrocketed and companies focused on high visibility organic projects
 - 2008 Midstream M&A activity down 60%
 - Transaction multiples declined slowly
 - Drop downs from GP to MLP dominated the space
 - Numerous M&A deals came to market in 2008 but few closed; very few after the credit crisis

Midstream Valuation Trends

- Will 2009 be another 2008 or is the market shut down until further notice?
- Possible transaction drivers (early trends) in 2009
 - Forced asset sales to reduce debt
 - Transactions structured to support or finance shale play infrastructure projects
 - More GP drop downs to support declining ebitda and weak balance sheets
 - Sector consolidation due to wide range of company values
- What are the key factors affecting transaction values?
 - Buyer & Seller expectations (the gap)
 - Cost of capital (IRR)
 - Access to capital markets (public vs. private equity)
 - Performance (historical ebitda vs. future)
 - Competition (financial vs. strategic)
 - Historical comps (the trend)
 - Long term fundamentals (growth potential and exit value)

The Perfect Storm

- After reaching an all-time high for corporate and asset valuations in mid-late 2007 the “perfect storm” occurred in 2008 – a credit crisis and a severe downward commodity cycle at the same time
- MLP capital markets were impacted by the credit crisis and re-pricing of risk leading to a massive devaluation of Midstream businesses and assets
 - AMZ index declined 42% in 2008 due to general repricing of sector risk, exit of hedge funds, limited liquidity, distressed credit markets and commodity price volatility
 - EV multiples are 33% below the 5 year average and 45% below the 07 peak
 - Average MLP Ebitda multiple of 7.5X compared to 14X at the peak
 - MLP yields have skyrocketed leading to much higher equity cost of capital
 - Mean Midstream MLP yields at 12.47% vs. 5.27% in 2Q 2007
 - Midstream MLP yields range from 8-10% (large cap midstreams/pipelines) to 18-23% (small cap midstreams/G&P’s)
 - Debt markets are largely closed to all but a few investment grade or crossover companies at significantly higher rates
 - Recent debt offerings at 9 - 15% indicative of continued stress in the credit markets

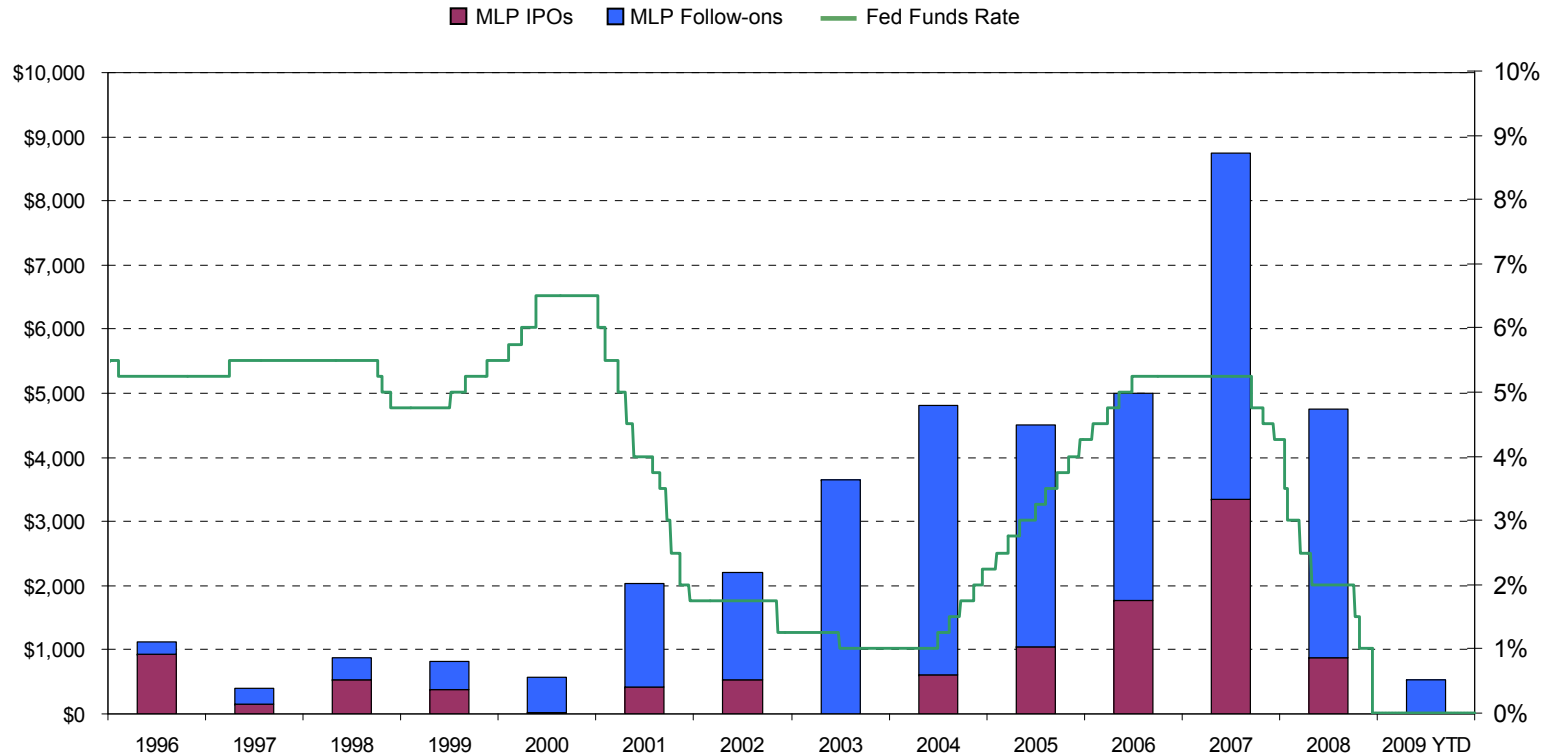
The Perfect Storm

- Midstream fundamentals have deteriorated as oil and gas prices collapse and the economy worsens
 - Oil down 72% from July 2008 high (Nymex prompt \$1.47 Bbl to \$40.78 Bbl)
 - Natural gas down 67% from July 2008 high (Nymex prompt \$13.69 Mmbtu to \$4.51 Mmbtu)
 - NGL's down 71% July 2008 high (\$1.659 gal) vs. December 2008 (\$0.485 gal); rebounded in January 2009 (\$0.5825 gal) down 65% from high
- Impact on future Ebitda
 - Lower demand for petroleum products across all value chains
 - Shrinking gathering and processing margins (POP's, POL's and KW)
 - Lower transportation and storage fees (lower fuel component, summer/winter differential)
 - Reduced rig count will ultimately lead to lower production
- Highlights the importance of due diligence/projections
 - Wide range of price decks and volume forecasts for 2009-10 period
 - Greater dependence on hedging strategies to achieve performance
 - Midstream has never been very good at hedging

- Approx \$6 billion raised in 2008 vs. \$30 billion of MLP equity financing (2006-07) including PIPE's
 - \$4.7 billion issued through public markets (mostly large cap pipelines and diversified) on 23 transactions (lowest in past 5 years) with last IPO May 08
 - Institutional ownership declined from 38% peak (Q1 08) to >20% by FYE 08
 - Retail systems will be the dominant buyers of new MLP equity limiting the size of equity raises in the future
- PIPE financing largely dead; replaced by sponsor drop down financing
 - Increased awareness of liquidity problems associated with large PIPES
 - Buyers insisting on 15-20% discounts vs. 5-10% previously
- All-in MLP equity costs (including GP IDR's) are now above a 12% ROCE
 - Many are above a 17% ROCE
- Key concerns in 2009 will be availability of capital to fund existing organic projects and to maintain distributions; where will acquisition capital come from?

MLP Equity Market Overview

MLP Equity Offerings Since 1/1/1996



| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 YTD |
|-----------------------------|---------|-------|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Total Issuance | \$1,122 | \$392 | \$877 | \$819 | \$570 | \$2,028 | \$2,207 | \$3,653 | \$4,863 | \$4,989 | \$7,280 | \$8,738 | \$4,760 | \$537 |
| % Change From Previous Year | 142% | -65% | 124% | -7% | -30% | 256% | 9% | 66% | 33% | 3% | 46% | 20% | -46% | -89% |
| MLP IPOs (\$mm) | \$930 | \$157 | \$526 | \$383 | \$20 | \$423 | \$525 | \$0 | \$609 | \$1,049 | \$1,763 | \$3,351 | \$882 | \$0 |
| GP IPOs (\$mm) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$52 | \$486 | \$2,277 | \$0 | \$0 | \$0 |
| Total IPOs (\$mm) | \$930 | \$157 | \$526 | \$383 | \$20 | \$423 | \$525 | \$0 | \$661 | \$1,535 | \$4,040 | \$3,351 | \$882 | \$0 |
| Follow-ons (\$mm) | \$192 | \$235 | \$351 | \$436 | \$550 | \$1,605 | \$1,682 | \$3,653 | \$4,202 | \$3,454 | \$3,240 | \$5,387 | \$3,878 | \$537 |

- Buyers have historically relied upon bridge loans with lengthy public debt market takeouts and low priced bank revolvers to finance acquisitions
- Banks now looking for opportunity to reduce loan books
 - Major pullback by classic participant banks; pool of prospective lenders continues to shrink due to mergers and capitalization issues
 - More selective; higher pricing; stronger terms
 - Declining commodity prices are not helping
 - Bank price decks under review; borrowing bases reset soon
 - Loan covenant defaults will commence soon
- Public debt markets are severely limited and costs have escalated sharply
 - Last 4 debt offerings by investment grade MLP's with coupon of 9.58% (730 bps over US 10 yr)
 - Large pipeline company recently issued 12% note at 89 (15% coupon)
- High yield and term loan B markets remain closed for most MLP's, C-corps and new issuers
 - Signs of life for seasoned issuers in high-yield
 - Institutional B loan market essentially non-existent

Recent M&A Activity

- 2008 Midstream MLP M&A activity \$4.32 billion down sharply from \$10 billion in 2007
 - Parent/Sponsor drop downs comprised 46% of total in 2008 vs. 28% in 2007
 - 36 transactions in 2008 vs. 77 transactions in 2007
 - Few transactions after Lehman bankruptcy other than drop downs
- Strategic buyers have allocated scarce capital to organic projects
- In 2009, buyers are looking at all-equity transactions; no leverage
- Few M&A deals on the market; a handful of Sellers are testing the market
- Sense of the market is average transaction multiples declining slowly; but no comps to confirm
- The gap widened between the bid and ask on asset sales
 - Buyer's WACC implies 3-5X transaction multiples
 - Seller's looking for 7-8X (typically requires 5.25x or greater to be credit enhancing)
- Even if capital is available, DCF accretion is more difficult due to higher cost of capital and expectation of lower ebitda

MLP 2008 Transactions

2008 Selected MLP Midstream and Propane M&A Transactions

| Date Announced | Purchaser | Asset | Seller | Purchase Price (\$MM) | EBITDA Multiple ⁽¹⁾ |
|-----------------------|----------------------------|---|---|-----------------------|--------------------------------|
| Midstream | | | | | |
| 1/14/08 | SemGroup Energy | 46 asphalt terminalling and storage facilities in 23 states | SemMaterials, L.P. | \$378.8 | 8.1x |
| 2/25/08 | Regency Energy | Nexus Gas Holdings, LLC | Nexus Gas Partners, LLC | 85.0 | NA |
| 3/1/08 | MarkWest Energy | 20% ownership interest in Centrahoma Operating LLC | NA | 11.6 | NA |
| 4/7/08 | Plains All American | Rainbow Pipe Line Company, Ltd. | Rainbow Pipe Line Company, Ltd. | 533.2 | NA |
| 4/28/08 | Penn Virginia Resource | 25% member interest in Thunder Creek Gas Services, L.L.C. | Kinder Morgan Energy Partners, L.P. | 50.0 | NA |
| 4/30/08 | Sunoco Logistics | 2 refined products pipelines and 6 terminals in Texas and Louisiana | Exxon Mobil Corporation and affiliates | 200.0 | NA |
| 5/12/08 | MarkWest Energy | Additional 20% ownership interest in Centrahoma Operating LLC | NA | 12.0 | NA |
| 5/12/08 | SemGroup Energy | Eagle North Pipeline System in Oklahoma | SemCrude, L.P. | 45.0 | NA |
| 5/21/08 | SemGroup Energy | 2 million barrels of crude oil storage in Oklahoma | SemCrude, L.P. | 90.0 | NA |
| 6/17/08 | Penn Virginia Resource | Gathering and transportation assets in the Fort Worth Basin | Lone Star Gathering, L.P. | 160.0 | NA |
| 7/1/08 | Penn Virginia Resource | Pipeline assets in the Anadarko Basin of Oklahoma and Texas | Private Seller | 29.7 | NA |
| 8/6/08 | Enterprise Products | 25.8% remaining interest in Dixie | BP | NA | NA |
| 8/6/08 | MarkWest Energy | Gathering assets located in Pittsburg County in Southeast Oklahoma | Petroquest Energy, LLC | 41.3 | NA |
| 8/28/08 | Buckeye | Ethanol and petroleum products distribution terminal | LogiBio Albany Terminal, LLC | 46.5 | NA |
| 8/28/08 | Kinder Morgan Energy | One-third stake in a crude oil pipeline and a jet fuel pipeline | Knight Inc. | 116.0 | NA |
| 9/3/08 | TransCanada Pipeline USA | Bison Pipeline LLC (289-mile natural gas pipeline system) | TC Pipeline and ONEOK | NA | NA |
| 9/11/08 | DCP Midstream | Natural gas gathering and treating services in the Antrim Shale | Two Private Sellers | 145.0 | NA |
| 9/16/08 | Eagle Rock Energy Partners | Millennium Midstream Partners, L.P. | Kayne Anderson, Tortoise Capital, WFC Holding Corp. | 236.0 | NA |
| 9/17/08 | El Paso Pipeline Partners | Additional interests in pipeline assets | El Paso Corporation | 736.0 | NA |
| 10/1/08 | Copano Energy | McMullen Lateral 151-mile pipeline located in Texas | Transco | 110.0 | NA |
| 11/1/08 | Western Gas | Midstream assets located in the Powder River Basin | Anadarko Petroleum Corp. | 210.0 | NA |
| 11/17/08 | Hess Corporation | 12.4% interest in the Seminole gas processing plant | Crosstex Energy | 85.0 | NA |
| 11/17/08 | Private Buyer | Non-strategic asset | Crosstex Energy | 20.0 | NA |
| 12/8/08 | Quicksilver | Lake Arlington Dry System midstream gathering and compression assets | Quicksilver Resources Inc. | 42.0 | NA |
| 12/8/08 | Duncan Energy | Partnership interests in three midstream energy companies | Enterprise Products Partners L.P. | 730.0 | NA |
| 12/22/08 | Western Gas | Midstream assets located in the Powder River Basin | Anadarko Petroleum Corp. | 210.0 | NA |
| Total / Median | | | | \$4,323.1 | 8.1x |
| Propane | | | | | |
| 2/5/08 | Energy Transfer | 9 retail propane companies in NC, OH, MI, MO, IL, TX, AR and AZ | NA | NA | NA |
| 3/4/08 | Inergy ⁽²⁾ | Retail division of Farm & Home Oil Company LLC; Rice Oil Co.; Capitol Propane, L.L.C. | Buckeye Partners, L.P.; Private Sellers | \$53.0 | 6.6x |
| 9/26/08 | Ferrellgas | Assets in central California and southern Texas | NA | NA | NA |
| 10/1/08 | AmeriGas | Penn Fuel Propane, LLC | NA | NA | NA |
| Total / Median | | | | \$53.0 | 6.6x |

- MLP response to crisis of declining earnings and limited visibility to growth
 - Management and Boards moving from denial to reality
 - Revising 2009 guidance lower, assessing bank covenant tests
 - Focus on liquidity by reducing 2009 capex, canceling projects, cutting costs
 - Cost of capital now above organic project returns
- Funding options for MLP's in the current market
 - Distribution cut to increase coverage ratio and retainage
 - Increase in leverage (if and when available)
 - GP sponsor equity infusions
 - Joint ventures
 - Asset sales
 - Private equity investments
 - GP restructuring

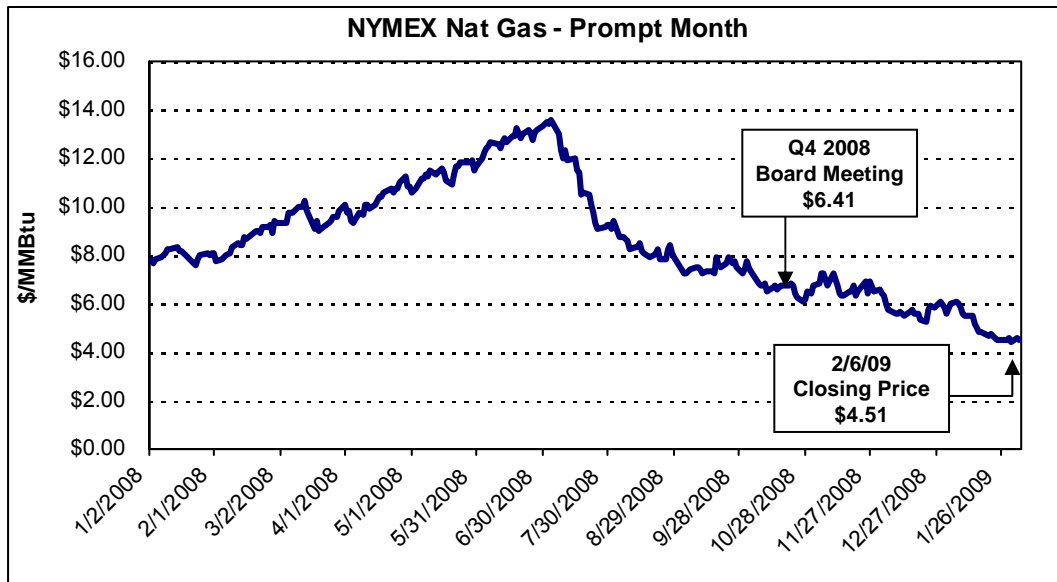
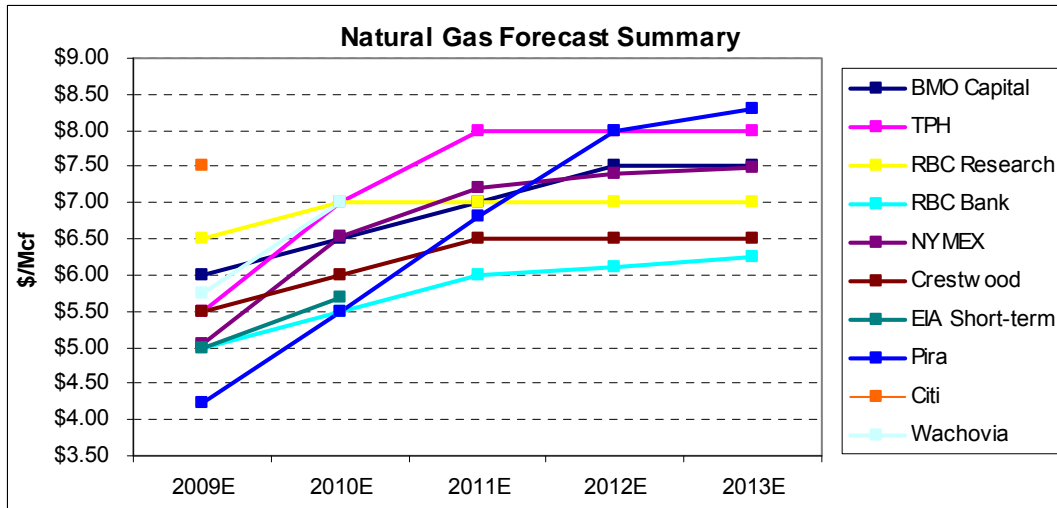
- Alternative sources of capital
 - Rescue PIPES
 - Common or preferred equity (liquidation preference very important)
 - Values range from market to greater than 20% discount to market
 - Direct Project Investment
 - Investment at book basis (no promote)
 - Target initial 15-20% unlevered ROCE plus exit value upgrade
 - Investor right to put (developer right to call) interest to developer/owner at negotiated exit multiple on future date
 - Looking for +3X MOIC returns
 - Infrastructure Funds
 - Still there but want a better deal; more funds being raised but with higher return expectations than previous versions
 - Structured as PF equity but with debt like features

Is Private Equity well positioned in this Market?

- Private equity investment strategies
 - MLP's that are vulnerable due to low valuation, liquidity concerns, covenant defaults or inability to grow distributions
 - Asset sales or preferred equity infusion
 - Change of control and debt covenant concerns
 - Existing C-Corps or MLP's with identified capital projects that may need a partner to fully fund their plans
 - Concerns about project IRR's and exit rights
 - E&P companies that look to JV or divest Midstream assets to provide capital to fund development
 - Control issues
 - Producer creditworthiness and fee/ROIC support
 - How to transition from a proprietary business to a third party business
 - Utilities seeking to raise capital by forming a Midstream Joint Venture
 - Concerns about IRR's, growth potential and exit rights

- Natural gas prices will suffer from significant supply overhang and declining demand
 - Gas rig count down 40% from high
 - Limited production shut-ins despite lower prices; Shale plays still economic
 - Rebalancing US supply/demand may take time
- Crude oil prices will be range bound until US demand recovers then go to global fundamentals
 - WTI now at deep discount to Brent and Dubai
- NGL's are being hit with a "triple whammy"
 - Growing western US supplies
 - Decreasing feedstock demand from petchems and refiners
 - Deeply discounted and bifurcated market (Conway – MTBV)

Natural Gas Prices

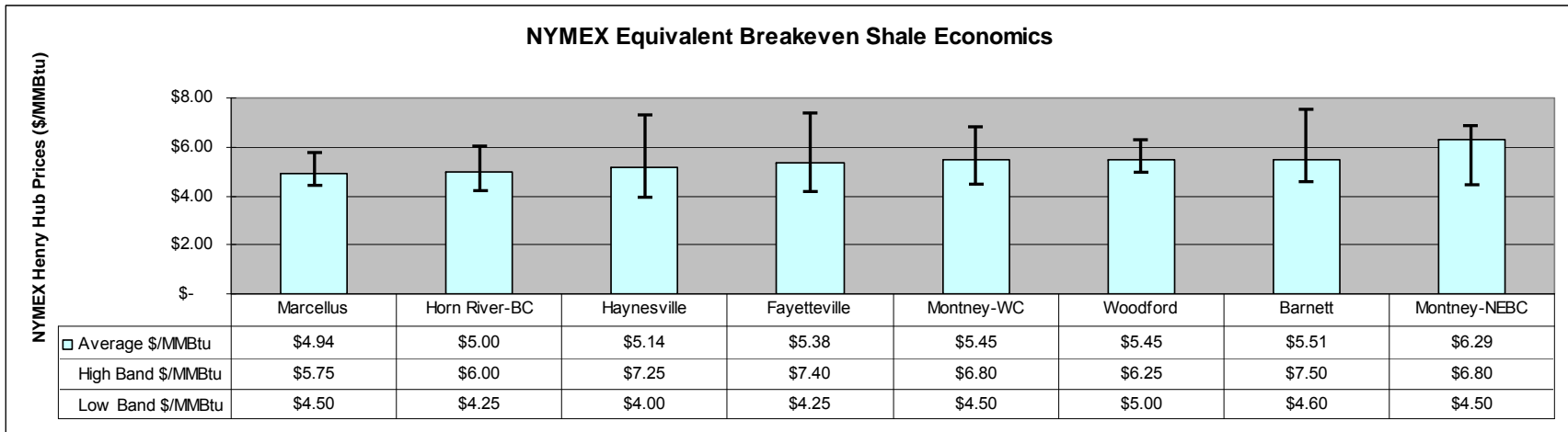


• Current market Conditions

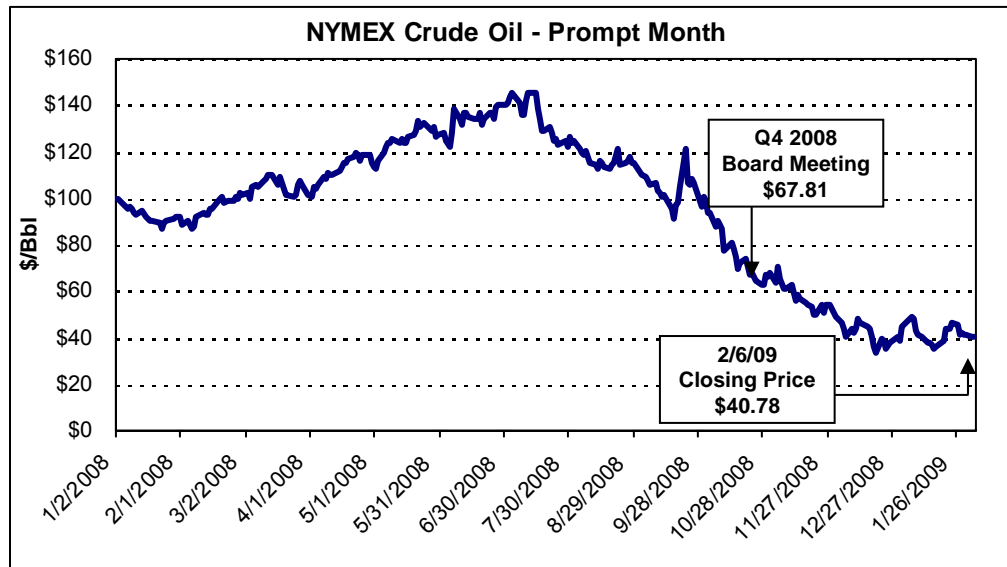
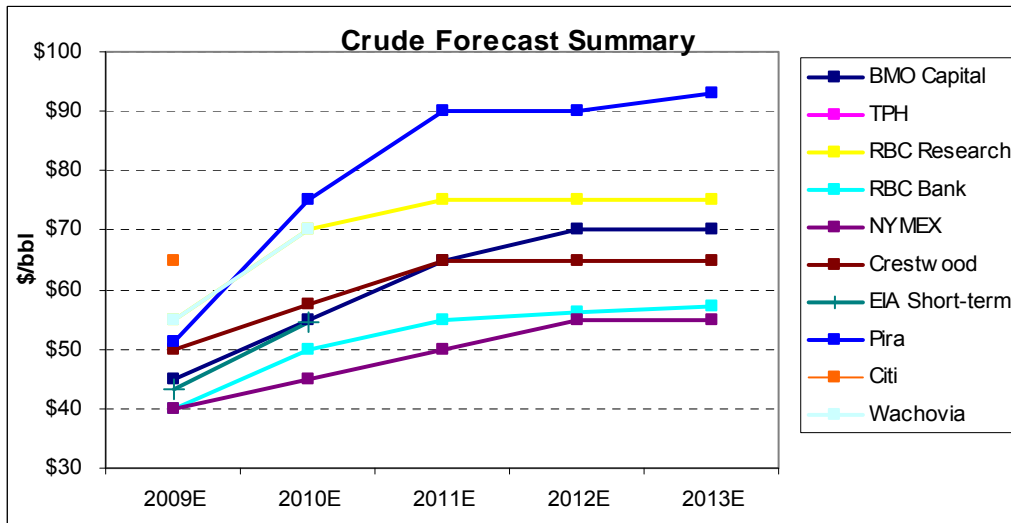
- The 2009 NYMEX price for natural gas is at ~\$5.25 MMBtu; \$6.50 MMBtu for 2010
- Over 1 Bcf/Day of natural gas has not returned to the market due to Ike & Gustav according to the MMS.
- A 9% colder winter versus last year has increased demand and deferred the impact of demand destruction due to the economic crisis
- Natural gas storage inventory is currently at 2.18 Tcf or 2.8% above last year. On March 31st projected to be at 1.6 Tcf.
- Active hedging programs by producers have delayed the affect of lower commodity prices and deferred announcements to shut in production

Rig Count & Shale Study

- Rig count update (Peak vs. Jan 30th)
 - RigData rigs now 1,389, down 985 rigs (41%)
 - M-I SWACO now 1,336, down 831 rigs (38%)
 - Smith Bits now 1,351, down 650 rigs (32%)
 - Baker Hughes now 1,330, down 608 rigs (31%)
- Rig count by producing area (RigData)
 - W TX & NM now 148 rigs, down 55%
 - Midcontinent now 264 rigs, down 44%
 - Gulf Coast now 144 rigs, down 43%
 - Average US now 1,389, down 41%
- Rig count by type of drilling (RigData)
 - Verticals now 646 rigs, down 50%
 - Directionals now 249 rigs, down 34%
 - Horizontals now 492 rigs, down 30%
- Bank of Montreal's comprehensive shale breakeven study
 - The average NYMEX equivalent breakeven cost for these shale plays is \$5.51/MMBtu
 - The Marcellus, Haynesville and Fayetteville shale plays are among the lowest cost and most productive
 - Commitments from producers for new pipeline capacity and reduced capex budgets will force producers to keep activity in these shale plays active throughout this commodity cycle
 - Production declines will largely come from the MidContinent, West Texas/New Mexico and the Gulf Coast drilling areas



Crude Oil Update

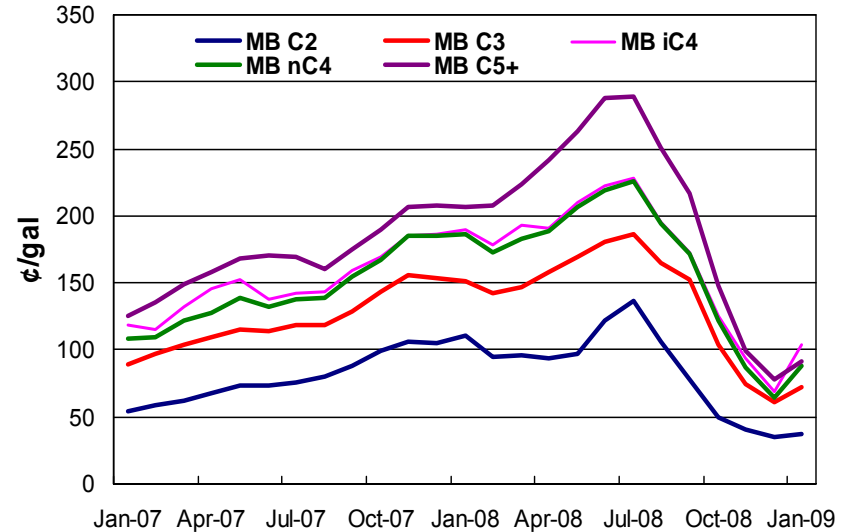


- Current market conditions
 - The 2009 NYMEX price for crude oil is at \$49.00 Bbl; \$57 Bbl in 2010
 - Downward trend in oil prices has continued as the worsening global economy weakened oil demand
 - OPEC has made additional production cuts (4.2MMb/d of cuts since September 2008); however they have failed to support prices
 - Global oil consumption continues to be revised downward
 - OPEC will wait until mid February to evaluate most recent cuts and make a recommendation for March's meeting
 - WTI is becoming disconnected from other world crude prices; Dubai crude, a medium sour oil, is now selling at a premium up to \$8 over WTI

Natural Gas Liquids Update

- C3+ NGL prices rebounded in January from the 4Q08 lows but are still at two year lows
- Petrochem C2 demand is at 10 year lows (\approx 500 MB/d) due to unprecedented US olefins demand destruction
 - Approximately 23% of US olefins capacity is shut down
 - Ethane inventories at record highs (\approx 30 MMB)
 - Propane has lost over 50% of its normal petchem market due to poor cracking economics
- Refining demand for butanes has caused a run-up in prices in January
 - Low propylene prices give refiners incentive to use more isobutane for alkylation
 - Winter blending of normal butane is at its peak; this will end in mid-March
- Contango markets for NGLs have filled storage at Mont Belvieu; these volumes will overhang long term recovery of prices until demand returns

Mont Belvieu NGL Prices

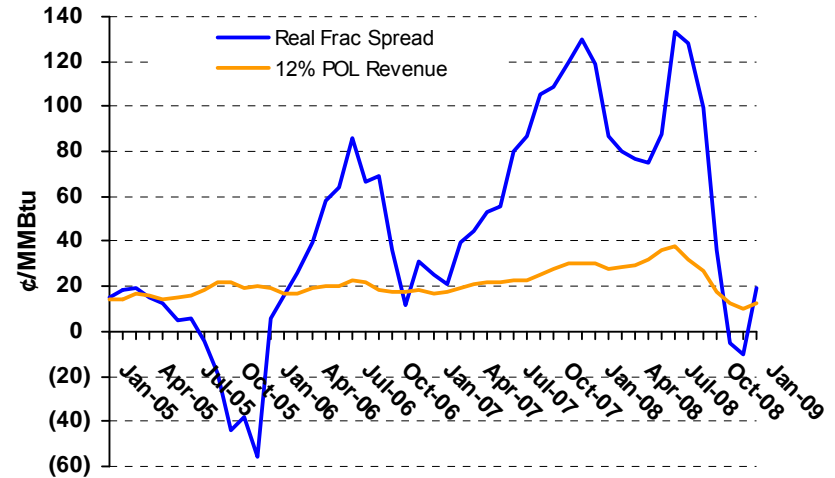


| | 2004-2008 Mean | 2004-2008 Std Deviation | 4Q 2008 | January 2009 |
|---------------------|-------------------|----------------------------|------------|-----------------|
| MB C2/CL ratio | 44.3% | 6.5% | 35.0% | 37.1% |
| MB C3/CL ratio | 67.3% | 6.7% | 60.8% | 72.4% |
| MB nC4/CL ratio | 79.9% | 7.9% | 66.5% | 91.5% |
| MB iC4/CL ratio | 82.5% | 8.2% | 68.4% | 104.0% |
| MB C5+/CL ratio | 94.3% | 7.0% | 81.3% | 91.3% |
| NGL Basket/CL ratio | 61.6% | 6.5% | 48.3% | 61.3% |
| Nat Gas/CL ratio | 70.6% | 20.7% | 66.1% | 70.2% |

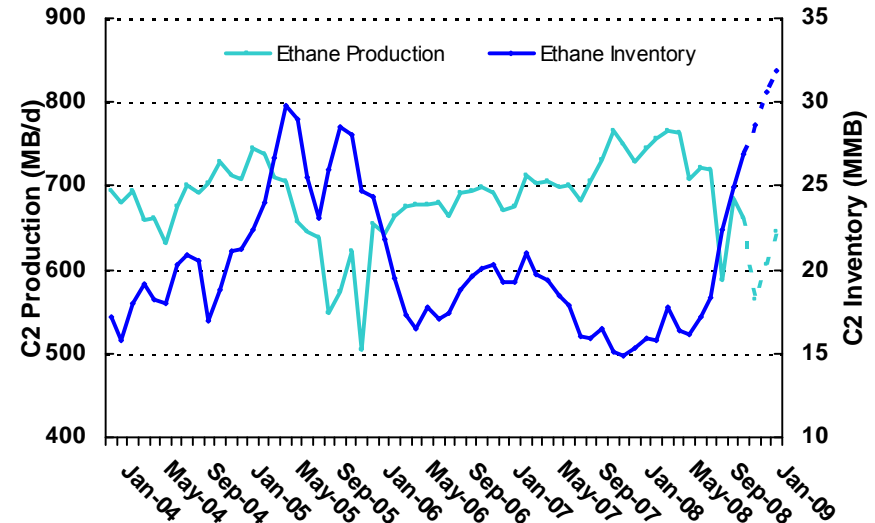
Gas Processing Outlook

- Processors have been in reduced C2 recovery mode in Nov-Jan period
 - Midcontinent, Rockies and Gulf Coast areas have been most impacted
 - Hedges have kept C2 recovery higher than cash prices have supported
 - Jan processing has benefited by +30¢/gal increase in butane prices vs. Dec
- Capacity constraints on fractionation and NGL pipelines have eased; new pipeline capacity still to come
- Shale plays will create few processing opportunities
 - Increased low NGL Haynesville & Fayetteville gas
 - NGLs from Marcellus gas will struggle due to lack of regional market access
- Consolidation of processing capacity as MLPs look to reduce costs in stressed environment

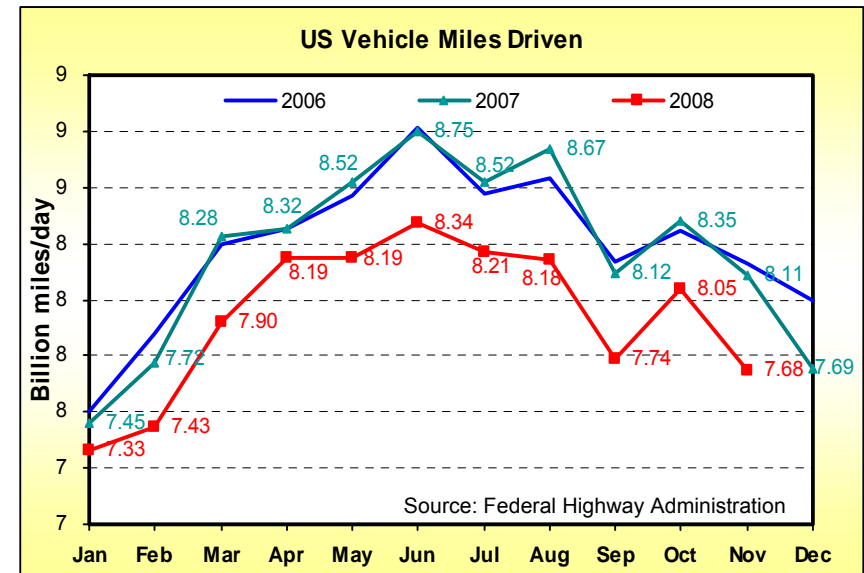
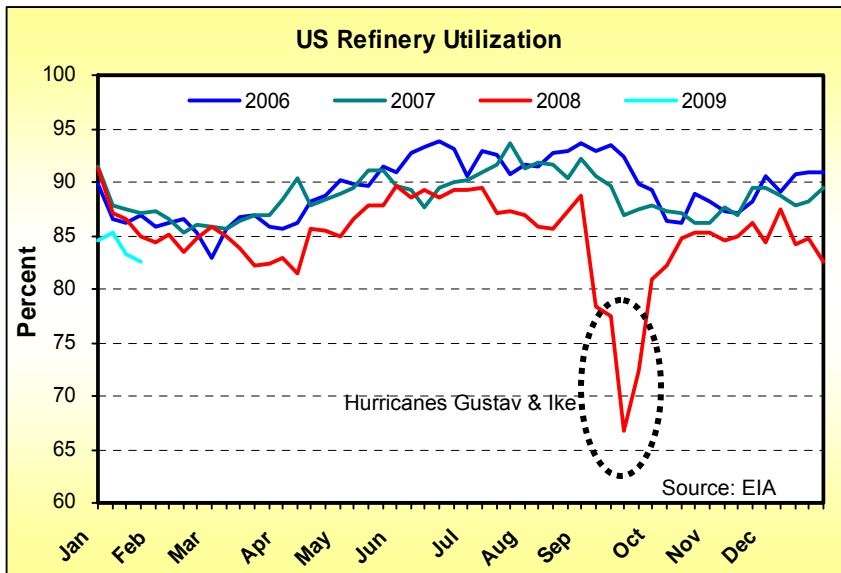
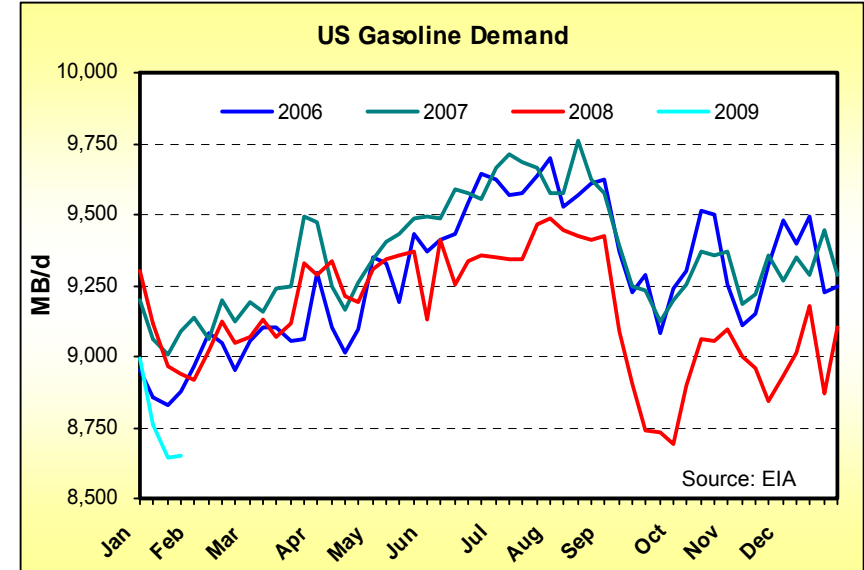
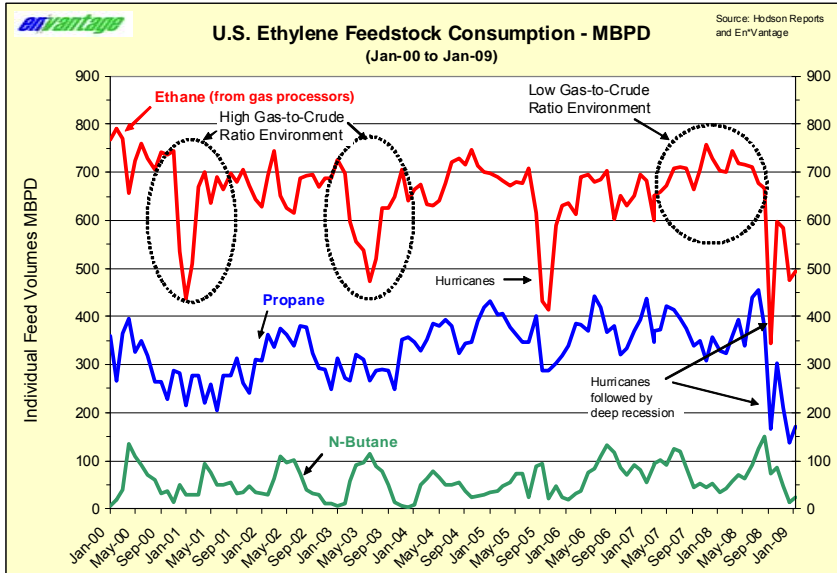
Gulf Coast Processing Margins



US Ethane Production & Inventory



Product Consumption Trends



- Smart money is still on the sidelines; still a big gap between Buyer and Seller; sense is that deal multiples will come down
- Goal is to buy or build at historically low multiples and benefit from normalization of credit and commodity markets
- What's Hot!
 - Infrastructure for shale plays
 - Regional regulated pipeline and storage expansions
 - Sponsor drop-downs
- What's Not!
 - Gathering and processing
 - Refining and Petrochemical infrastructure
 - Offshore GOM assets
 - Developmental storage projects

- No indication of stabilizing or increasing commodity prices
- Certain midstream businesses are in for an extended downturn and will continue to devalue
- Volumes to fall in certain regions as rig count reduced
- Asset sales will largely be dictated by credit negotiations and availability of alternative capital to bridge to higher commodity prices in the future
- Drop downs will continue but will be more difficult for the transaction to be accretive for both parties
- Capital markets improvement will come slowly and benefit the large, diversified, investment grade midstream players
 - Classic “have” and “have not” scenario; survival of the fittest
- Duration and depth of the credit and commodity downturn will ultimately determine Midstream M&A activity levels
- Private equity investors will have to be patient, selective and creative