

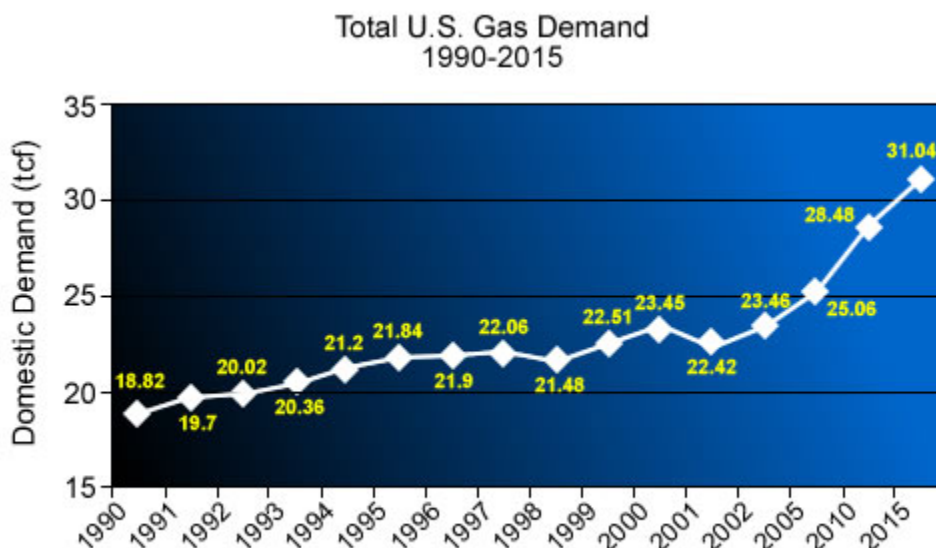
Crosstex Energy Midstream Industry Overview

The midstream natural gas industry is the link between exploration and production of natural gas and the delivery of its components to end-use markets. The midstream natural gas industry in North America includes approximately 1.2 million miles of pipeline, 525 processing plants and other facilities. The midstream industry is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas producing wells.

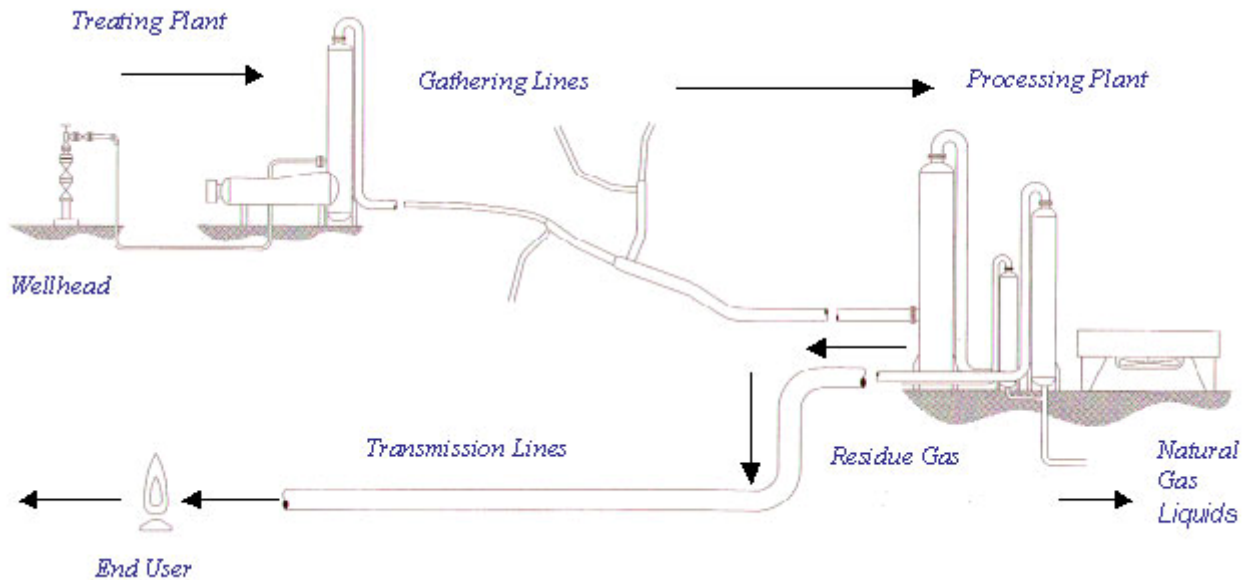
Overview. Natural gas continues to be a critical component of energy consumption in the United States. According to the Energy Information Administration, or the EIA, total domestic consumption of natural gas is expected to increase by over 2% per annum, on average, to 35.0 Tcf by 2020, from an estimated 22.8 Tcf consumed in 2000, representing approximately 24% of all total end-user energy requirements by 2020. During the last six years, the United States has on average consumed approximately 19.8 Tcf per year, with average marketed domestic production of approximately 20.0 Tcf per year during the same period. The industrial and electricity generation sectors currently account for the largest usage of natural gas in the United States.

Natural gas reserves and production. As of December 31, 2000, operators in the United States had 177.4 Tcf of proved "dry" natural gas reserves and 186.5 Tcf of proved reserves of "wet" natural gas reserves. Natural gas is described as dry or wet depending on its content of heavy components. These are relative terms, but as generally used, a wet gas may contain five or six gallons or more of NGLs per Mcf, whereas a dry gas usually contains less than one gallon of recoverable liquids per Mcf. Texas accounted for approximately 42.1 Tcf, or 24%, of the proved dry gas reserves and 45.4 Tcf, or 24%, of proved wet gas reserves in the United States as of December 31, 2000. While gas production in the lower 48 states is projected to grow by 9.2 Tcf between 2000 to 2020, Texas, Louisiana and Oklahoma are projected to have the largest growth (3.2 Tcf) in production during this period.

Growing Natural Gas Demand



Natural gas gathering and treating. The natural gas gathering process begins with the drilling of wells into gas bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems typically consist of a network of small diameter pipelines and, if necessary, compression systems that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission.



Natural gas has a varied composition depending on the field, the formation and the reservoir from which it is produced. Natural gas from certain formations in the Texas Gulf Coast is high in carbon dioxide. Treating plants are placed at or near a well and remove carbon dioxide and hydrogen sulfide from natural gas before it is introduced into gathering systems to ensure that it meets pipeline quality specifications.

Natural gas processing and fractionation. The principal components of natural gas are methane and ethane, but most natural gas also contains varying amounts of NGLs and contaminants, such as water, sulfur compounds, nitrogen or helium. Most natural gas produced by a well is not suitable for long-haul pipeline transportation or commercial use and must be processed and treated to remove the heavier hydrocarbon components and contaminants. Natural gas in commercial distribution systems is composed almost entirely of methane and ethane, with moisture and other contaminants removed to very low concentrations. Natural gas is

processed not only to remove unwanted contaminants that would interfere with pipeline transportation or use of the natural gas, but also to separate from the gas those hydrocarbon liquids that have higher value as NGLs. The removal and separation of individual hydrocarbons by processing is possible because of differences in weight, boiling point, vapor pressure and other physical characteristics. Natural gas processing involves the separation of natural gas into pipeline quality natural gas and a mixed NGL stream, as well as the removal of contaminants.



NGL fractionation facilities separate mixed NGL streams into discrete NGL products: ethane, propane, isobutane, normal butane and natural gasoline. Ethane is primarily used in the petrochemical industry as feedstock for ethylene, one of the basic building blocks for a wide range of plastics and other chemical products. Propane is used both as a petrochemical feedstock in the production of ethylene and propylene and as a heating fuel, an engine fuel and an industrial fuel. Isobutane is

fractionated from mixed butane (a stream of normal butane and isobutane in solution) or refined from normal butane through the process of isomerization, principally for use to enhance the octane content of motor gasoline and in the production of MTBE. Normal butane is used as a petrochemical feedstock in the production of ethylene and butadiene (a key ingredient in synthetic rubber), as a blendstock for motor gasoline and to derive isobutane through isomerization. Natural gasoline, a mixture of pentanes and heavier hydrocarbons, is used primarily as motor gasoline blend stock or petrochemical feedstock.

NGLs are fractionated by heating mixed NGL streams and passing them through a series of distillation towers. Fractionation takes advantage of the differing boiling points of the various NGL products. As the temperature of the NGL stream is increased, the lightest (lowest boiling point) NGL product boils off to the top of the tower where it is condensed and routed to storage. The mixture from the bottom of the first tower is then moved into the next tower where the process is repeated, and a different NGL product is separated and stored. This process is repeated until the NGLs have been separated into their components: ethane, propane, isobutane, normal butane and natural gasoline. Since the fractionation process uses large quantities of heat, energy costs are a major component of the total cost of fractionation.

Natural gas transmission. Natural gas transmission pipelines receive natural gas from mainline transmission pipelines and gathering systems and deliver the processed natural gas to industrial end-users and utilities and to other pipelines.