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DPM - Q3 2015 DCP Midstream Partners LP Earnings Call

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## CONFERENCE CALL PARTICIPANTS

**Faisal Khan** *Citigroup - Analyst*

**Jeff Birnbaum** *Wunderlich Securities, Inc. - Analyst*

**Jeremy Tonet** *JPMorgan - Analyst*

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the DCP Midstream Partners third-quarter 2015 earnings conference call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Andrea Attel. Please go ahead.

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**Andrea Attel** - *DCP Midstream Partners, LP - Director of IR*

Thanks, Sabrina. Good morning, everyone, and welcome to the DCP Midstream Partners third-quarter 2015 earnings call. Today you'll hear from Wouter van Kempen, Chairman and CEO of both DCP Midstream and DCP Midstream Partners, and Sean O'Brien, CFO of both companies.

This call is being webcast, and the slides are available on our website at [dcppartners.com](http://dcppartners.com).

On our discussion today, we will be including forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements, and for a complete listing of risk factors, please refer to the Partnership's most recently filed 10-K and 10-Q. We'll also use various non-GAAP measures, which are reconciled to the nearest GAAP measure in the schedules in the appendix section of the earnings slide.

Now, I'll turn the call over to Wouter.

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

Thanks, Andrea. Good morning, everyone. Thanks for joining us. On today's call, Sean and I will talk about another great quarter for DPM, and towards the end, I'll touch on how the DCP Enterprise is executing on our DCP 2020 strategy and goals.

But first, I'm very pleased to say that the structuring solution to provide capital stabilization to DCP Midstream has closed. Last Friday, DCP Midstream received capital contributions of \$1.5 billion of cash from Phillips 66 and Spectra Energy's one-third interest in the fee-based Sand and Southern Hills NGL pipelines. So let me spend a moment talking about that.

This level of support is unprecedented in the space. We are talking about \$3 billion with no funding requirements and without having to tap the debt or equity markets by DPM or DCP Midstream. This combination of cash and assets is the best of both worlds. While significantly delevering the DCP Midstream balance sheet with the cash infusion and resulting interest cost reduction, we have also added a significant no fee-based



revenue stream. Between both of these, this amounts to approximately \$130 million of ongoing cash flow at DCP Midstream. It's a tremendous show of owner support and a great example of why sponsored MLP has significant advantages.

It also clearly underscores Phillips and Spectra's belief in the earnings power and the strategic position for the DCP Enterprise. And as it relates to that strategic position, I'm proud to say that for the third year in a row, the DCP Enterprise is the number one gas processor, the number one NGL producer and the third largest NGL pipeline operator in the country.

All of this is great news for DPM. We have a strong general partner, and we clearly demonstrated the importance of a strong DPM with a sustainable distribution outlook.

So next, let me jump into the highlights. DPM reported another successful quarter of strong adjusted EBITDA and volume growth, stemming from our geographically diverse asset base and growth from fee-based assets that were recently placed into service and are ramping up quickly.

In the third quarter of 2015, our adjusted EBITDA and DCF were both up more than 10% from the third quarter of 2014, resulting in a distribution coverage ratio of 1.21 times for the quarter and 1.13 times for the trailing 12 months. These strong results were driven by the completion of a number of fee-based projects and the ramp-up of the Lucerne 2 plant, Keathley Canyon and the Sand Hills extensions.

On slide 5, I'll provide an operational update on our three segments. Our diverse geographic footprint provides us with access to multiple resource plays, contract types and customers. Our capacity utilization from Sand Hills and projects placed into service this year like Keathley Canyon and Lucerne 2 averaged 85% underpinning our strong focus on capital efficiency.

In the natural gas service segment, volumes are up 3% from the third quarter of 2014. The fee-based Keathley Canyon connector is already approaching its 440 million a day gathering capacity with record volumes on the system. Our new Lucerne 2 plant in the DJ was placed into service at the end of the second quarter. Volumes have quickly ramped up with the DJ Basin system averaging 85% utilization during the third quarter. DJ continues to be a great story where we have been setting new throughput records in seven of the past nine months.

Next, the Eagle Ford system continues to perform well. Our higher-margin Eagle Ford Shale volumes are up from 2014 and are partially offsetting larger declines in the lower margin legacy areas.

And finally, throughput on our East Texas system was lower compared to the third quarter of 2014, primarily due to prior year one-time interruptible volumes. However, East Texas is up from the second quarter of 2015 and is expected to remain strong due to new contracted volumes from a large producer in the area.

In the NGL logistics segments, volumes are up 45,000 barrels per day or 20% from the third quarter of last year. The ramp-up at the Sand Hills, Front Range and Texas Express NGL pipelines are the main contributor to the increase. Sand Hill's volumes are up almost 40% from the third quarter of 2014 and average approximately 85% of its 250,000 barrels per day capacity, showing continued strength from both the Permian and Eagle Ford production.

And throughput on both Front Range and Texas Express that is servicing our DJ production is up more than 20% from the third quarter of 2014 and continues to grow with the addition of our new Lucerne 2 plant.

Finally, our wholesale propane segment had a good quarter due to the conversion of our Chesapeake terminal from propane imports to butane exports. We've been actively loading ships at the facility for butane exports, which makes for another great fee-based revenue stream for DPM.

So overall, we continued to see nice volume growth in our core areas, but we are closely monitoring producer activity in the current environment, and we will continue to stay in lockstep with our customers.

In summary, we are benefiting from our geographically diverse portfolio with strong performance from core areas of the key basins, and we're filling newly constructed capacity across our systems, driving growth in our fee-based earnings.

Now let's move on to slide 6. As you read in yesterday's release, we have reduced our maintenance capital forecast range for 2015 while leaving all of our other estimates unchanged, and Sean will touch on this later.

Moving to growth capital, during the first three quarters of this year, we've spent about \$275 million of our \$300 million growth capital forecast. As you see on the right side of the slide, our 2015 capital program is mostly completed. The steel is in the ground, the new assets are in service, and they are contributing fee-based cash flow to the bottom line.

In addition to Keathley Canyon and Lucerne 2 in our natural gas services segment, the Red Bluff Lake and Lea County lateral extensions connect Sand Hills to third-party plants in the Delaware Basin and to DCP Midstream's new CO<sub>2</sub> sour gas plant in Southeast New Mexico.

As you saw in our press release last month, DCP Midstream re-contracted approximately 1 million acres the Delaware Basin, solidifying our volume outlook in the Permian. That's great news for Sand Hills. It's great news for our new lateral extensions. We continue to progress in the addition of pump stations to add capacity to Sand Hills in the middle of 2016.

Lastly, our Grand Parkway and Panola expansion projects are expected to be in service in relatively short order. So we have very few capital commitments remaining for 2015, and as we look out to 2016 and beyond, we will continue to be prudent around organic growth spend in this challenging commodity environment.

We are not a build it and they will come type of company. We remain focused on strong capacity utilization, and we will stay in lockstep with our producer customers. So when they are ready to grow, we will be ready to grow.

With that, I'll turn it over to Sean to review our financial results.

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Thanks, Wouter, and good morning. I appreciate everyone taking the time to join us today, and I am excited to talk to you on the heels of closing the owner support transaction that sets the DCP enterprise up well to weather this tough environment.

On slide 7, I'll hit some of the financial highlights of our third-quarter 2015 results. Building off of Wouter's earlier comments, the Partnership had a terrific third quarter, continuing our track record of delivering on our commitments. Adjusted EBITDA was up \$18 million or 12% to \$167 million. This increase was due to solid execution on our organic investments, driving strong results in each of our business segments, which was partially offset by higher G&A expenses due to an increase in the annual fee under our services agreement.

We generated \$146 million of DCF in the third quarter, resulting in a coverage ratio of 1.21 times. On a comparable basis, Q3 DCF was up 11%, excluding \$12 million of one-time items booked in the third quarter of 2014. This increase was driven by the strong fee-based cash flow from our portfolio, strong execution on cost controls and lower maintenance capital.

As Wouter mentioned, for the remaining part of 2015, we reduced our maintenance capital forecast range to \$25 million to \$35 million for the year, driven by lower well connect activity and our capital prioritization efforts all tied to the current environment.

In our natural gas services segment, adjusted EBITDA of \$134 million was up 6% from the third quarter of 2014. This was largely driven by continued growth from the Lucerne 2 and Keathley Canyon projects, both put into service earlier this year, coupled with the positive impacts of commodity hedges and growth in our higher margin areas.

Focusing now on our NGL logistics segment, adjusted EBITDA was up \$10 million or 26% to \$48 million, driven predominantly by growth from the ramp-up of Sand Hills and Front Range NGL pipelines, and we are excited to see continued growth from our NGL pipeline fee-based investments.



And finally, in our wholesale propane segment, adjusted EBITDA of \$6 million was up \$5 million, primarily due to the conversion of our Chesapeake facility to a butane export terminal and lower expenses. We are currently exporting on a regular basis and running near capacity, averaging one to two ships per month.

Now moving to slide 8, I'll recap our financial position at the end of the quarter. DPM continues to maintain a very strong balance sheet with substantial liquidity and strong credit metrics. At the end of the third quarter, the Partnership had \$1.1 billion available under its credit facility at an average cost of debt of 3.7%. And in October, we retired our \$250 million debt maturity utilizing our facility, giving us more flexibility around our debt portfolio.

Leverage at the end of the quarter was 3.2 times on the low end of our target range, and as I mentioned earlier, our coverage ratio was 1.21 times for the third quarter and 1.13 times for the trailing 12 months, both strong ratios driven by our solid results.

And as our track record has demonstrated, we firmly believe that the Partnership's diversified and growing fee-based revenue stream will continue to support our DCF target and positions DPL well to deliver sustainable value to our unitholders.

Now moving to slide 9, I'll quickly highlight -- give some highlights regarding our margin portfolio and commodity sensitivities. We've executed well in 2015, reducing DPM's earnings volatility by growing fee-based markets to 60%, which coupled with our hedge portfolio results in fee-based hedged margins of about 92%. Looking to 2016, we will continue to execute and reduce earnings volatility with fee-based margins forecasted to grow to 65% and a 2016 fee-based and hedged margin of about 80%.

And as we've demonstrated in the past, we will look to add additional hedges with the goal of increasing our fee-based and hedge margin percentage.

Finally, we are spending a significant amount of time looking at 2016 and beyond, and through execution of our self-help efforts and owner contributions all driving substantial incremental cash flows for the DCP enterprise, we are confident that we are well-positioned to continue to deliver sustainable value through this difficult industry environment.

And with that, I'll hand it back over to Wouter.

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**Wouter van Kemp** - DCP Midstream Partners, LP - Chairman and CEO

Thanks, Sean, and before we open the line up for your questions, I want to share with you how we are positioning the DCP enterprise for the future.

As the largest gas processor and NGL producer in the country, we've worked with hundreds and hundreds of producers, and we hold strong positions in most of the key basins. That means that we have tremendous market intelligence. It gives us great insights and allows us to act and respond very quickly to any changes in the environment.

We began well over a year ago to establish our DCP 2020 strategy as we saw a shift in the environment, and in early February of this year, we were well underway on executing our strategy. DCP 2020 is all about operational excellence. Being focused on efficiency, reliability and risk management. And with this focus, we are seeing great progress.

So let me give you some examples. The DCP enterprise was one of the first companies in the energy space to make very hard decisions. In January -- that is 10 months ago -- we right-sized and streamlined our organization, helping us to reduce our cost base with approximately \$70 million of sustainable cost reductions. I spoke in February of this year about our contract realignment efforts and progress. This has included rationalizing our contracts and bringing additional margins to the bottom line.

Through these efforts, we've already seen sustainable margin improvements of more than \$50 million annualized across the DCP enterprise. And in addition to these margin improvements, we set a goal to reduce our equity NGL commodity length by one-third by the end of 2017.

We are well underway and have had some great success, including the significant renewal of the Delaware Basin announced by DCP Midstream last month. And not only did we increase our fee-based revenue, we reduced our NGL equity length and significantly increased the overall margin and returns on that specific contract.

What we are also with our contract realignment initiative is simplifying our business and reducing costs. So why is that? We are settling over 9000 contracts every month. In many cases we have hundreds of contracts with one producer customer. So consolidating those contracts creates great back-office synergies and simplifies and reduces not only our cost structure but also the producer's cost structure.

So summarizing, our contract realignment initiative is about bringing additional margin in, reducing our commodity exposure, while adding fee-based revenue and reducing our cost structure. We started this in late 2014, we are seeing great results to date, and there will be much more to come in 2016.

Another area we've been focusing on is around rationalizing our systems and footprint. Over the past year, we've divested about \$200 million of multiple small plants and gathering assets that were non-core to DCP Midstream. We used the proceeds to strengthen the balance sheet, and in addition, the sale of those assets will reduce operating and maintenance costs and increase operating efficiencies of our existing systems.

So all of those are great initiatives, and the culmination of them is the centerpiece of our DCP 2020 strategy, operational excellence. We're already seeing our current fleet operating better, more reliably, we are de-risking our portfolio, and we're spending less money.

So the combination of our DCP 2020 self-help efforts and this \$3 billion of owner support provides the DCP enterprise with a very strong foundation of sustainable cash flows over the long run.

We have done some really hard things, and that's our job. That's what you expect us to do. We were very quick out of the gate in 2015, and we will continue to respond proactively for the rest of this year and throughout 2016 so that we continue to deliver sustainable value to our investors and unitholders.

With that, I'd like to thank you for your interest in the Partnership, and Sean and I are now available to take your questions. Sabrina? Please open up the line.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Faisal Khan, Citigroup.

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### Faisal Khan - Citigroup - Analyst

Just a few questions. First, on the wholesale propane business, the change over change, the \$6 million to \$1 million year over year, is that the new quarterly sort of run rate for the butane export facilities, or should we be capitalizing on their \$5 million a quarter into earnings for butane exports?

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### Sean O'Brien - DCP Midstream Partners, LP - Group VP and CFO

Faisal, I think it's definitely a trend, right? We had a good quarter on the propane business, as you noted. The butane we shipped. I think we had five export ships go out. But obviously there's still some seasonality in that business, but I do think as you think about run rate having that facility up and running, we have reset that. But how Q4 and Q1 are going to play out really is going to depend on demand, and the depend is going to depend on the weather we see and the amount of exports. But we are happy to see a great Q3, very strong five ships, and that is in terms of that business setting a much better run rate.

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**Faisal Khan** - Citigroup - Analyst

Okay. And then how do we think about your sort of -- now that you've converted sort of one of the contracts over to fee based, one of your larger contracts over to fee based from POP, how does that sort of influence your percentage of cash flows that are hedged for next year? Is the slide that you guys put out sort of incorporating that new position?

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**Sean O'Brien** - DCP Midstream Partners, LP - Group VP and CFO

That slide we put out, the slide that we have I think you're referring to the slide 9 in our deck, Faisal, that's the Partnership that's DPM. The contract that Wouter alluded to in his script and then we had a press release go out was in the Permian Basin area.

So the good news is I mean it's a substantial contract. It's a great example of how we are moving the fee across the DCP enterprise. It is raising the total Company's fee-based percentage. We'll have big impacts in 2016, and you know, as Wouter mentioned, we're going to continue to focus on converting. I think we've been public with a third of our NGL equity length over the -- you know, by the end of 2017.

So in terms of that slide you were looking at, no impact in 2016. That's the Partnership. That's DPM. But from an enterprise perspective, it should have an impact, a very large contract. We are really excited to see that get executed.

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**Faisal Khan** - Citigroup - Analyst

Okay. And then at the Partnership level, are you -- are there still opportunities to convert contracts into from POP to fee? Are you still looking at those? Are those mostly going to be at the enterprisewide LLC level?

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**Wouter van Kempen** - DCP Midstream Partners, LP - Chairman and CEO

Faisal, good morning. It's Wouter. You know, most of the -- most of the commodity exposure is sitting at LLC enterprise and entity, and if you look at the Partnership much more fee-based than LLC. So I would say the majority is on top, and you're probably looking predominantly in areas like the Permian Basin and the midcontinent, which really are kind of the two big kind of POP areas for our Company.

I think the way you've got to think about this, in the end, the enterprise, all the pieces work together. So LLC, the private entity and DPM, the Partnership, they all work together. Having a very stable LLC has helped for DPM. Having a strong DPM is helpful for LLC. And in the future I think if you think about any type of activity that may or may not happen, having more fee-based entities and areas at LLC is definitely going to be helpful to the Partnership.

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**Faisal Khan** - Citigroup - Analyst

Okay. Last question for me just on the segments of ownership positions in Sand Hills and Southern Hills that sit at the LLC level, what's the plan with those assets so far? I mean will they still sit there, or do you have -- is there a plan to eventually drop those assets into the Partnership?

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**Wouter van Kempen** - DCP Midstream Partners, LP - Chairman and CEO

No, the plan was absolutely not to say, okay, let's put them into LLC and then tomorrow drop them down to the Partnership. That was absolutely not the plan. The reason why we came to the restructuring as we did just to make sure that we delever the balance sheet at LLC, as well as get a great set of highly cash flowing, fee-based assets into LLC and to really make sure that we get through this current environment of very low commodity prices and kind of combined it with all of these self-help initiatives that we are doing.

So over the future and when you know the industry returns to significant growth and when we see growth opportunities around the footprint, that is when we may start to resume our drop-down strategy, which is really driven by kind of growth for growth. And if we see that, then there is a tremendous amount of inventory at LLC, which includes still a very significant part of the DJ Basin, the Permian, the midcontinent and the Sand and Southern Hills assets that came in last week.

So I think what it does, it strengthens the entire enterprise. It is not meant to be dropped in in very short order, but it gives us once again great optionality for the future and to make sure we get through this environment.

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**Faisal Khan** - *Citigroup - Analyst*

Great. Thanks for the time. Appreciate it.

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Thanks, Faisal.

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**Operator**

Jeff Birnbaum, Wunderlich.

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**Jeff Birnbaum** - *Wunderlich Securities, Inc. - Analyst*

A few questions from me. Obviously, it's been a busy year for you. There's not much you've discussed I think to date for 2016 in terms of capital. And at DPM, I guess what's the feeling about investing for growth while the situation continues to evolve at LLC, despite LLC seemingly being on a little sounder footing from a covenant perspective through really 2017. I guess how are you thinking about your willingness to sort of stretch the balance sheet to invest, and leverage at the Partnership is not high. So I guess maybe just some comments on CapEx and whether that's more a reflection of how you are thinking at the combined level, whether that is more a reflection of customer needs?

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

Jeff, a great set of questions. Let me address this. You know, as I have mentioned in my prepared remarks, we are kind of getting towards the end of 2015 here. We're getting towards the end of our growth program. About \$275 million of the \$300 million of assets of growth capital we have put into service. We're still working the Grand Parkway program in the DJ Basin, the Panola expansion in East Texas. So there's still a couple of projects coming into service.

We always talk about capital efficiency and how you want to make sure that when you put steel in the ground it starts earning capital right away. I think the best way to look at that is, if the billions of dollars that we've invested over the last couple of years, 85% capacity utilization. That's pretty good. I think that is something that we are proud of. That is something that we are always kind of striving for when we invest.

So if you start taking a look in 2016, this industry in the end kind of ebbs and flows with activity that the producers have. Yes, can we go out tomorrow and put new plants into service in the various regions that we have? Yes, we could do that. But is that the right thing to do, putting capacity in when you see rig count going down by 60%? I don't think that is prudent.

But what you want to make sure is that you keep all your options open. We have long lead time equipment available. We have permits available. So we've gone with all of those activities. We've continued. Now it is all about making sure that the producers are starting to give us the signs and the indications that they need capacity. And when they do that, that is when we will build and we will go hand-in-hand with the producers.

We have a massive, massive platform if you take a look at the entities combined between LLC and between the Partnership, a tremendous amount of opportunities. So if the opportunity comes up for organic growth, we'll go after them. We will do it. But we're not going to be ahead of the producer customer. And in the end, the producers drive the need for new capital and new capacity.

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**Jeff Birnbaum** - *Wunderlich Securities, Inc. - Analyst*

Okay. Thanks. That's helpful. So it sounds like the focus is going to be for now certainly on capital efficiency while you have cash flows ramped through next year from assets coming online over the next few months. But I guess right now, you're not hearing the need for a lot more in terms of CapEx from customers and customer needs?

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

Jeff, you made a comment about the focus for now is capital efficiency. That's always been a focus for us, so that will continue to be the focus. But we are having discussions with our producer customers, especially in places like the DJ Basin. You have seen from us the DJ Basin is doing really well. If you listen to the various large producers in the area that are our customers, they are tremendously happy with how all the new capacity that we put into service with Lucerne 2 and field infrastructure, how it is doing great things for them as well.

So we like that. The producers like that. We are talking with them about what are the other opportunities that we can do to put capacity in, and we will continue to have those closed discussions with them, and when the producer is ready, we will be ready.

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**Jeff Birnbaum** - *Wunderlich Securities, Inc. - Analyst*

Thanks, Wouter. And then you mentioned that you are making great progress on reducing the NGL equity length. Certainly the Zia II acreage contract conversion was a nice move. Obviously year-end 2017 is still quite a ways away. But I guess how far along do you think towards you are hitting that reduction target, how far along do you think you are today, and do you expect that most of that progress will be along similar lines to the Zia II renegotiation?

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

You know, Jeff, we highlighted Zia II, that renegotiation, because it was such a massive contract. And like 1 million acres in the Permian with an investment grade counterpart, that is such a massive contract. We just wanted to highlight that. And if you take a look at that contract and like it will end up double digit millions of dollars of margin, that will go additional to the bottom line by renegotiating that contract. But, you know, I talked about how we are settling over 9000 contracts every single month. So this is an ongoing effort.

The commercial team literally daily is converting different structures and different contracts with our customers. So there is a lot of smaller ones that we're working on every single day, and then you have some of these massive contracts that we announced a couple of weeks ago, and you'll probably see a couple of more of those coming.

So overall, 27,000 barrels, a third of our NGL equity length is what we are trying to reduce by the end of 2017. I think we are very well on schedule to do that, and it's going to be a continued busy year here in 2015 as well as in 2016. But feel very comfortable about where we are, great progress to date.

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**Jeff Birnbaum** - *Wunderlich Securities, Inc. - Analyst*

Okay. Thanks and then just one question on hedges for me. Sean, I don't think you've added any hedges for 2017 since at least the first quarter, and I was wondering kind of what your thought process on that is. I know it can be hard to procure good NGL hedges the further out you go. But

perhaps you could comment on how we should sort of interpret that, you know the lack of hedges on NGLs and crude in 2017 relative to perhaps your views on prices today and going forward?

At the end of the day, we do have some hedges out there in 2017. I think we're somewhere around 7% hedged. Obviously that's lower than where we would be in 2016. So we have seen some opportunities to put some hedges on in 2017.

Current environment, quite frankly, we look at it. We monitor it. We've executed well. That was in my written comments. But at the end of the day, we are going to look for some -- we'll need a little bit of pricing improvement probably to continue to layer onto the position.

One thing I'll remind you -- and it's not on the slide -- is one of the nice things we have going for us is the growth in our fee-based margins. As you think about 2017, I think we've shown this prior. We are up to 70%. So we went to 60% this year. We'll go to 65% next year. I think we've been showing 70% in 2017, but we'll still need to utilize hedging as one of the tools. But the good news is our fee-based margin is growing and will continue to grow.

But we'll have to look for some commodity or some opportunities to do it. You know this year we saw some in May and June to go and put some positions on, you know, mostly crude and a little bit of gas I think earlier. But right now in the environment we are in, we are not seeing a lot of opportunity to get out there and extend to our hedges. But I would hope as we progress through this year and into 2016, we'll see some of those opportunities. The goal is definitely to get that percentage up.

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**Jeff Birnbaum** - *Wunderlich Securities, Inc. - Analyst*

Got it. Understood. Thanks so much.

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**Operator**

Jeremy Tonet, JPMorgan.

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**Jeremy Tonet** - *JPMorgan - Analyst*

I was wondering if you could kind of walk us through your philosophy these days for DPM as far as distribution growth versus coverage and how you manage that? It seems like there's a big debate out there in the marketplace, and I was just wondering how this stacks up in your mind these days?

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

You know, Jeremy, it's a good question. I think I want to take you back a little bit about I spoke about how we given the size that we are as an enterprise as a whole as the largest NGL producer and the largest gas processor in the country, we see a lot of things, we hear a lot of things, we talk about every -- we talk with every significant major producer in the US all the time. So, as a management team, we have been preparing for a longer-term, lower commodity environment for quite some time right now. And you know if you really think about this, we started feeling the shift in the environment somewhere in the second half of 2014. That's when we started preparing for this environment and started working some of the fundamental changes that we saw coming.

So if you take a look at that and I spoke about how we went out of the gate really quickly 10 months ago to get the reduction in force, we did things around our contract renegotiations. I started talking in February about that with you. That's nine months ago, and we were well, well, well underway at that time.



The same kind of holds true for distributions. We at DPM, we held distribution flat for 2015 and we told you that fairly early in the year. That was a really hard decision for us to make. We were probably one of the first in the industry to do that again, but why did we do it? We did it because we believe in sustainability. We believe we thought this environment was going to be ugly for quite some time.

And I think in the end for investors, for unitholders, the most important thing is making sure that there is sustainability, and we're proving that with what we did on DPM around the distributions and around all the hard things that we're doing about taking costs out, making sure that we get more margin in the door, reducing our equity lengths, and on top of that, DPM is a sponsored MLP. Sponsored MLPs have a tremendous amount of levers, much more levers than other people in our space, and then, you know, I think that culminated into \$3 billion of owner support that we received last Friday. Again, that is a tremendous amount of money, great assets, and what it once again does, it positions DPM to weather the storm, the DCP enterprise to weather the storm, and to make sure that we solidify a long-term distribution outlook for the Partnership.

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**Jeremy Tonet** - *JPMorgan - Analyst*

That's helpful. Thank you. And following up on sponsor support, really in February 2009 DCP Mid kind of showed a tremendous level of support for the MLP at that point with a drop-down to support a multiple to really kind of kickstart things to get things going again. And I guess you said drop-downs might not be a near-term thing here as far as the NGL pipes are concerned, but I'm just wondering if you could refresh us there as far as your thinking about when a drop might make sense for these assets and DCP Mid's ability to show support for DPM like it was done in February 2009?

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

Yes, you know, it's a great question. I think you've got to look at this a little bit broader. Remember and let me replay for you the last 10 months. I am like the last 10 months I think there was everybody or a great majority of people were convinced that what we're going to do around LLC would impact DPM and probably would impact DPM negatively because you would have to go to the equity markets and do big equity raises. And what we did was completely 180 degrees the opposite of that.

What we did is doing something at the LLC level that actually makes the Partnership a lot stronger, solidifies the \$3.12 distribution for the long run. So I think with what we did the \$1.5 billion cash, the \$1.5 billion of strong fee-based assets is helping the Partnership out tremendously.

If you take a look where we are with coverage, we are at 1.2 to 1 coverage at the Partnership for this quarter. I kind of like that. That is pretty solid. If you take a look at our volumes that we are having, we are up overall as you saw. We are up from last quarter. We are up from Q1. We are up from Q3 2014. DJ Basin up. Keathley Canyon up. Eagle Ford continues to be strong. Yes, we're watching volumes closely, but at the same time, things are really, really set up tremendously well for the Partnership.

And with that, I think we're in a pretty good shape and probably in better shape than many in the industry here today.

It doesn't mean that over time more assets come into the Partnership. Yes, we continue to believe in growing the Partnership. We believe that if there are good investment opportunities, we will do those in the Partnership as we have done here kind of recently and over the last kind of year or two. And I think all of that bodes tremendously well for DPM in 2015 and 2016 and looking forward.

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**Jeremy Tonet** - *JPMorgan - Analyst*

That's helpful. Thank you for that. That's it for me.

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**Operator**

Derek Walker, Bank of America.



**Derek Walker** - *BofA Merrill Lynch - Analyst*

Most of my questions have been answered. I just have two quick ones here. I guess one on the lower maintenance guidance, you kind of indicated that was partially driven by just lower well connects. And I guess how you are thinking about that going forward, just given your strategy for sort of this lockstep strategy with producers, is sort of that \$30 million a fair run rate as you see things today?

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Yes, Derek, this is Sean. Absolutely, what we are seeing this year in this environment -- and that's why I alluded to the reductions or prior to stations, as well as lower well-connected conductivity in the environment. We do see that, as Wouter alluded to, we're kind of planning for this lower for longer environment for a while. So I think that is the new run rate that you'll see for the total enterprise, but I know the numbers you're speaking to are just DPM going forward. We are comfortable with those levels. Some of it is around capital efficiency that we have been able to do. You mentioned the producers. We've been able to obviously diminish some of our capital outlay and push it a little bit back on the producer as well.

So I think that's a decent run rate. If we see this environment, obviously, if things recover and things and we get back into growth mode in our industry, we'll have to readjust at that time. But currently right now, I'm comfortable with that run rate.

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**Derek Walker** - *BofA Merrill Lynch - Analyst*

Got it. And then just the last one for me. I think in the press release you said there wasn't any equity issuance. I assume that was from the ATM? I guess how are you guys looking at using that tool going forward? It sounds like you are again just in this lockstep mode, and it's a tool you can use at any time really. So I guess how are you guys looking at that in 2016 just given some of the flexibility and sort of the close conversations you have with producers?

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Yes, I mean, first and foremost, it's a great tool. We've utilized it a lot. We've got a substantial amount still available on our current shelf. So it's a nice way to raise equity. We've done it and utilized it well.

As we think about next year, I'll just echo Wouter's comments. Wouter has kind of commented on the fact that we are -- our current capital program is just about completed. That's a good thing in a lot of ways because we don't have a lot of committed capital in this tough environment. But the good news is, if we see opportunities, if we see the environment start to recover a little bit and producer activity start to increase, we are well-positioned through the ATM and through various other products to support that and raise capital if needed.

But right now, as Wouter said, we're going to be very cautious and keep an eye on the producer, not a great need to hit the capital markets at the moment.

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**Derek Walker** - *BofA Merrill Lynch - Analyst*

Great. That's it for me. Thank you, guys.

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**Operator**

Gary Stromberg, Barclays.

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**Gary Stromberg** - *Barclays Capital - Analyst*

In 2016, you talk about DPM being 65% fee based. Can you give some perspective on how you think fee versus POP mix will be at the LLC level next year?

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

You know, we have seen -- I'll give you a couple of stats around, and be clear we're talking about the enterprise. You know obviously the 65%, Gary, that you mentioned is just DPM. The good news is at the enterprise level, we are seeing, obviously as DPM grows, its contribution is going to grow to the enterprise. In this current environment, the POP and keep whole margins obviously are much -- they are much more lessened than they would be in a massively strong commodity environment.

And I think what I would tell you from a really positive perspective on the stats, I really like to see is our GNP, overall GNP fee-based margins have grown by about 20% from this time last year. That's going to be from things like growth in key plea, things like some of the contract reformation work that Wouter talked about that we are focused on. More to come on that. The 20% plus increase there.

And the thing for the enterprise that I'm excited about is we're seeing about a 20%, 20% plus growth from last year in our NGL pipeline fee-based margins. Obviously a lot of that is at the Partnership, but with the announcement of the transaction on Friday, LLC has picked up a pretty substantial cash flow now, fee-based cash flow around the one-third interest it now owns in those pipes.

So, you know, Partnership obviously much higher percentages when you look at it, but the enterprise itself is increasing its fee-based component, and that is our goal, and our goal is to continue to do that. And if we execute well, we'll have it up in some of those higher levels by the end of 2017.

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**Gary Stromberg** - *Barclays Capital - Analyst*

Okay. And just as a follow-up, we've seen material deleveraging up at DCP Midstream. Are you done with the deleveraging? Are you content with the absolute leverage at the Partnership, or would you like to see that come down some more? And if so, how would you do that?

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Well, I think you've said it well. We've had a massive delevering event that just occurred on Friday, so we are very, very excited about that. I think what we are going to do, our goal as a Company is to make sure that we keep our metrics in the right ranges going forward, and we're going to stabilize our cash flows. All the things Wouter talked about, the self-help helps not only increase cash flows but also takes some volatility out of it.

But I think another tool we will continue to look at is shoring up and keeping our metrics in line, and we will probably look at opportunities to delever where we can.

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

And I think you know, Gary, just add to that, I think we're going after the trifecta. First of all, massive delevering effect to the tune of \$1.5 billion last Friday. Secondly, the way to deal with this is making sure that you increase your overall EBITDA and cash flow stream, not only Sand and Southern Hills and reduced interest expense at Midstream that is about \$130 million. But you put on top of that massive cost savings, contract reformation where we get additional margin and maybe a couple of asset sales here and there on the assets that we don't like. So that gives you more EBITDA, which helps.

And then as Sean mentioned, the other piece is you want to make sure that the EBITDA has less volatility, and we're going after that tremendously hard. So that is kind of what I think about the trifecta. We are delevering at the LLC. We are getting more EBITDA and the EBITDA that we are getting is less volatile. It's pretty good.

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**Gary Stromberg** - *Barclays Capital - Analyst*

That's great. And just final does investment grade matter anymore, or is that still a target or a goal for either entity?

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**Sean O'Brien** - *DCP Midstream Partners, LP - Group VP and CFO*

Yes, I mean obviously we've been investment grade for most of the history of both or of the private company for sure, and we attained it at the public company a few years back through all three agencies. It absolutely matters. But at the end of the day, all we can do is what Wouter just alluded to. We are trying to do -- if we execute on the things we can, stabilize our cash flow and grow our EBITDA, delever our balance sheet, those are the things that hopefully will drive us back to the right ratings.

I will say that the owner contribution transaction that closed back on Friday was received very well by the rating agencies. You saw some positive movements from Moody's. Fitch came out very positively. So I think we're doing the right things, and it is important at the end of the day for this Company to continue to improve our ratings.

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**Gary Stromberg** - *Barclays Capital - Analyst*

Okay. Thank you.

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**Operator**

Thank you and I'm showing no further questions at this time. I would now like to turn the conference over to Wouter van Kempen for closing remarks.

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**Wouter van Kempen** - *DCP Midstream Partners, LP - Chairman and CEO*

Great. Well, thank you, everybody, for your time this morning. Looking forward to continuing to see you and have discussions. If there's any specific questions, follow-up questions, please contact Andrea, and we will make ourselves available. Have a great day.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone have a great day.

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