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DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

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MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

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Elvira Scotto *RBC Capital Markets - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the DCP Midstream first-quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call may be recorded. I would now like to introduce your host for today's conference, Andrea Attel, Director of Investor Relations. Please go ahead.

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

Thank you, Charlotte. Good morning everyone, and welcome to the DCP Midstream Partners first-quarter 2016 earnings call. Our speakers today are Wouter van Kempen, Chairman, CEO, and President of DCP Midstream and the Partnership, and Sean O'Brien, CFO of both companies. Today's call is being webcast, and the slides are available on our website at dcppartners.com.

Our discussion today includes 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 the risk factors, please refer to the Partnership's most recently filed 10-K and 10-Q. We will 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 will turn the call over to Wouter.

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

Thanks, Andrea. Good morning, everyone. Thanks for joining us for our first-quarter earnings call. Sean and I looking forward to sharing the results of this strong quarter, and providing you an update on how the DCP enterprise continues to execute successfully on our DCP 2020 strategy and goals.

But before I address the quarter's results, I want to recognize all 2800 of our employees, for their contributions to our strong performance, and their focus and execution through this challenging environment. Everyone is aligned to supporting our operations team and improving reliability and operational excellence, and all with an unwavering focus on safety. And that same focus extends to maintaining strong relationships with our customers, through our re-contracting efforts.

MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

I also want to acknowledge our support teams for their leadership on cost management and identifying efficiencies. And I am very proud of the collaboration between our operations, commercial, and support teams on how they are answering the call to transform DCP for long-term sustainability. So from me, to all 2800 DCP employees, thank you for all you are doing.

Now moving on. The Partnership had another tremendous quarter. You can see adjusted EBITDA increased 7% to \$173 million, and DCF was up an impressive 18% to \$165 million from the first quarter of 2015. We held our distribution flat at \$3.12 per unit, annualized, and printed one of our highest distribution coverage ratios ever, of 1.36 times for the quarter and 1.24 times for the trailing 12 months. So we seized the reins early in the year to build a strong coverage buffer to proactively prepare for the potential unknowns in the current industry environment, and we continue to maintain low leverage, which stood at 3.2 times.

One of the big watch-outs on everyone's radar is volumes. From our perspective volumes are not only holding in; we actually saw an overall uplift both on a quarter-over-quarter look and in sequential quarters. And we will cover this in further detail on the next two slides.

Let me talk to the two largest segments contributing to our strong first quarter, beginning with Natural Gas Services. As expected, in the first quarter we saw volume growth on the Discovery and DJ Basin Systems. And this growth has more than offset declines in the Eagle Ford and East Texas system. I want to highlight the DJ Basin, which has set sequential record volumes in January, February, March, and April of this year. This is largely due to strong production in the field, and our Lucerne 2 Plant and Grand Parkway project being placed into service.

Our Lucerne 2 Plant is already at capacity, with our DJ Basin system utilization up 10% from the fourth quarter to about 95%. Discovery is up from the first quarter of last year, due to Keathley Canyon coming online in February, 2015, and utilization remains strong at 90%. As expected, East Texas is seeing declines, from really due to reduced drilling, and while we are still forecasting overall 2016 Eagle Ford declines, in the 15% to 20% range, we are very pleased to say that volumes were only down 1% from the fourth quarter. So if you add it all together, our gas throughput increased both quarter-over-quarter and sequentially from last quarter, due to the strength and the diversity of our asset portfolio.

Going to slide 5. The strong volume performance story repeats itself in the NGL logistics segment, where throughput significantly increased, both quarter-over-quarter and again sequentially from last quarter. Framing up the NGL volume story: Southern Hills utilization climbed from 40% to 55% during the first quarter, primarily due to an increase in NGL production from DCP Midstream's national helium plant, which restarted in the fourth quarter of 2015.

Front Range saw growth in NGL throughput and capacity utilization, primarily due to an increase in NGL production from Lucerne 2 being in service, and Texas Express is around 50% to 55% utilization. And lastly, Sand Hill volumes are up from the prior year, due to the laterals that came online in 2015, and NGL production from DCP Midstream's Zia II plant. Volumes were slightly down sequentially from the fourth quarter due to a third-party plant fire in early December, partially offset by DCP Midstream's Zia II volumes and additional third-party volume connections. Overall, our NGL pipelines add to the strength and diversity of our portfolio, and they provide us with upside potential for ethane recovery.

Now onto slide 6. Looking back to the 2016 capital outlook we provided in February, we've been proactively managing our capital spend and anticipate the bulk of growth and maintenance capital will be at the low end of our target ranges. Our growth capital outlook includes a little carryover from the completion in the DJ Basin earlier in Q1, and the Panola Pipeline expansion and Sand Hills pump station, which we both expect to be placed into service this quarter. All in all, our growth program is substantially complete, with the majority of our projects in service and contributing to earnings.

Turning to maintenance capital. As a reminder, our maintenance capital includes spending on well connects, system integrity, compliance, and safety improvements. And on those, we will never compromise. We are incredibly proud to tell you that our assets are running better, and our reliability continues to improve, even while we are spending less money. Our maintenance capital run rate for the first quarter was predominantly driven by a reduction in well connects and timing of our overall maintenance programs.

So with that said, Sean will now cover our financial results, and I'll come back at the end with highlights of our DCP 2020 execution and address how the DCP enterprise, as the largest NGL producer, will significantly benefit from ethane recovery opportunities.



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

Sean O'Brien - DCP Midstream Partners, LP - CFO

Thanks, Wouter, and good morning. I am very excited to take you through the Partnership's results, reflecting our strongest first quarter. As Wouter said earlier, we've built a strong coverage buffer early on, which positions the Partnership well as we move forward.

First quarter adjusted EBITDA was up \$11 million, or 7% to \$173 million. This increase was due to strong utilization on our organic growth projects that were placed into service last year. We generated \$165 million of DCF in the first quarter, up \$25 million or 18%, resulting in a coverage ratio of 1.36 times. This increase was driven by the growth in fee-based cash flows, strong execution on cost controls, and lower maintenance capital that Wouter just covered.

In our natural gas services segment, adjusted EBITDA of \$131 million was up 8% from \$121 million in the first quarter of 2015. This was largely driven by continued growth from the Keathley Canyon and Lucerne 2 projects, which were partially offset by lower commodity prices and lower volumes in the Eagle Ford and East Texas.

Focusing now on our NGL logistics segment, adjusted EBITDA was up \$11 million, or 28%, to \$50 million, driven predominantly by higher throughput the volumes on Sand Hills and Southern Hills; higher fees from new connections on our NGL pipelines; and higher volumes on the Mont Belvieu fractionators. Our Panola Pipeline expansion is expected to go into service next to quarter. However, it is important to note that the Partnership's 15% ownership interest was effective beginning February 1. This means we began recording earnings and receiving distributions starting on that date.

And finally, in our wholesale propane segment, adjusted EBITDA of \$13 million was down \$10 million from Q1 2015, predominantly due to lower propane sales volumes and a favorable LCM recovery in Q1 2015, partially offset by higher unit margins. And one thing to note about this business is that we tend to look at it on a heating season basis, which runs from Q2 of one calendar year to Q1 of the following calendar year, with the fourth and first quarters typically being the strongest. If you look back at the heating season ending in the first quarter of 2016, compared to the same heating season ending in 2015, segment EBITDA was actually up about 75%, primarily due to the conversion of our Chesapeake terminal to a fee-based butane export facility in late 2014. We're currently averaging about two ships per month, providing nice, fee-based earnings through the summer months.

Now moving to slide 8, I'll quickly hit the highlights regarding our margin portfolio. With our growing fee-based assets, we are forecasting 2016 fee-based margin to increase to 75%, up 15% from 2015. And the remaining 25% margin is 55% hedged for the year, weighted heavier to the first quarter. So our 2016 annualized margin is 90% fee-based or hedged. Looking outward to 2017, we estimate our fee-based margin to climb to 80% or more, which is up more than 50% in just a few short years. This is on the back of the growth in our NGL pipelines, DJ Basin System, and Keathley Canyon. And again, we will properly manage remaining commodity exposure, and we've been pleased with the upward move in the 2017 forward curve, giving us a potential opportunity to put on hedges at solid price levels.

I want to also emphasize that our 2017 commodity exposed margin represents a smaller portion of the portfolio, 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 targets and positions DPM well to deliver sustainable value to our unit holders.

Slide 9 highlights DPM's strong credit metrics, leverage, and distribution coverage ratio, underscoring our strong balance sheet. The Partnership had approximately \$920 million available under its \$1.25 billion credit facility as of Q1 2016, and had \$2.38 billion of long-term debt outstanding, with an average cost of debt of 3.6%. And our next debt maturity is not until December 2017, so we have ample liquidity. Our leverage and coverage metrics remain strong, with leverage ending at 3.2 times, on the low end of our target range. And as mentioned earlier, our coverage ratio was a healthy 1.36 times for the first quarter, and 1.24 times for the trailing 12 months, all driven by our solid results. All of this positions DCM well entering the second quarter with a strong balance sheet, ample liquidity, and healthy distribution coverage.

On slide 10, I want to provide a quick update on our counter-parties and producers. Our portfolio remains strong at nearly 90% investment-grade or equivalent, despite recent actions by rating agencies that have impacted many companies. Contract structure makes a difference, and DPM's contracts are advantaged. We tend to sell product on behalf of our producers, so we hold the cash, drastically limiting counterparty exposure. Our



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

contracts are generally at market levels, and we don't have any significant minimum volume requirements with any non-investment grade companies that are not being met, and in terms of our concentration levels, no one producer or customer makes up more than 10% of our overall exposure. So at the end of the day, we have an incredible portfolio of customers and producers in a must-run business, coupled with solid contracts and steel in the ground, which is clearly proven out with our record results.

Before I hand it back over to Wouter, I also want to echo his comments around the monumental performance DCP's employees are delivering on every day. I am proud of how our employees are making the hard decisions, and executing on our promises, ensuring the long-term sustainability of our Company. And with that, I will hand it back over to Wouter.

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

Thanks, Sean. We're very excited about how the DCP 2020 strategy has progressed in its execution since we began these efforts in 2014. All 2800 of our employees have embraced our goal to become the most reliable, safe, low-cost midstream service provider sustainable in any environment. And this has led to DCP the enterprise significantly resetting its cost base and break-even cash flows to levels that will be sustainable and competitive in any commodity cycle and positioned for recovery.

Since we have provided our outlook in early February, the DCP enterprise continues to drive down its break-even NGL price. Heading towards \$0.30 per gallon, which includes an annualized cost base reduction target of an additional 10% in 2016. We acted on a difficult decision in April to reduce our workforce by 10%, and in total, we're now down about 600 employees since the height of our growth program.

What does this mean? Today we are running \$14 billion of assets, with the same number of people that we ran \$8 billion of assets in 2010. I'm especially proud of the step change in reliability improvement. We continue to operate more efficiently and reliably, which is a win-win for both DCP and our customers. And we're doing this while we are spending less money.

We've made strong progress in our contract realignment efforts to convert one-third of our NGL equity length to fee, and we've added significant fee-based margins to DCP's portfolio. We have been diligent managing our capital program, with no significant projects remaining, and as always, we will match base with our producer and target future projects with strong returns. With our focus on system utilization, we will continue to optimize and rationalize our systems, and that includes consolidating or idling less efficient plants and compressors, and potentially selling non-strategic assets.

Let me remind you that with the commodity exposure at DCP Midstream, we were one of the first to feel the effects of the industry downturn, which prompted us to be very proactive and deliberate. As we have always said, we run the DCP enterprise as one company, so our DCP 2020 strategy is inclusive of both DCP Midstream and the Partnership. And as the DCP enterprise operates better, reduces cost, and optimizes systems, those strategies benefit the Partnership.

Now let me wrap it up and move to slide 12. Let me give an example of some sign posts that are already having an impact on the industry. Looking out on the horizon, the petchem industry expansions and exports that once seemed so far off in the distance are now clearly in our sights. There are billions of dollars of investments in petchem facilities that are expected to come online in 2017 and 2018, and those crackers crack only one thing. That is ethane.

These expansions, along with [BDH] facilities and exports, are anticipated to need ethane in excess of what is currently being rejected by the industry. And to give you some perspective, over 650,000 barrels per day of ethane are currently being rejected in the lower 48, and more than half of those barrels are squarely found around the DCP enterprise footprint. And that spells a tremendous opportunity for us. Not only is the DCP enterprise the heaviest hitter in NGL production, but we are also at the top of the batting order when ethane recovery begins. As an integrated midstream provider, we are greatly advantaged.

To incentivize gas processors to recover ethane, the frac spread needs to be favorable to gas prices, which will benefit the overall NGL barrel price and our commodity-exposed gathering and processing margins. And also, as one of the largest NGL pipeline operators, we will benefit greatly from capturing incremental NGL volumes on our extensive pipeline infrastructure.



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

The economics will tell you that those who are the closest to the Mont Belvieu market will benefit first. So if you start with Mont Belvieu at the nucleus, and draw concentric circles, ethane recovery should begin in Eagle Ford, then East Texas, Permian, Mid-Continent, the DJ Basin, et cetera. And those are all areas where both the Partnership and DCP Midstream have an extensive footprint.

So to wrap it up. DPM had a tremendously strong quarter, with a strong coverage buffer and overall volume uplift that sets us up well to weather any uncertainties. The execution of our DCP 2020 strategy directly benefits DPM, and we see the potential for some nice upside from ethane demand forecasted in 2017 and 2018. We were one of the first to feel the effects of the industry downturn, which led us to be proactive and deliberate in our response, beginning in 2014. And now, both DPM and DCP Midstream are both very well-situated to navigate through this environment and to emerge much stronger on the other side.

I'm going to leave you with one final thought. When you're the first to feel the pain, you are the first to feel the gain. And with that I would like to thank you for your interest in the Partnership and hand it over to Charlotte to open the phone lines for any Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Elvira Scotto, RBC Capital Markets.

Elvira Scotto - *RBC Capital Markets - Analyst*

I think that you guys had mentioned that you still expect Eagle Ford volumes to be down about 15% to 20% in 2016, but volume was only down about 1% in the first quarter. Was that Eagle Ford performance in line with your expectations, or were you a little surprised that volumes weren't down more in the quarter?

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

Thank you, Elvira, good morning. It is Wouter. I think, overall, we are tracking roughly where we expected things, maybe a tiny little bit better than we had. There's a lot of uncertainty that continues to be around this area. So I think for us, it is prudent at this stage to continue to think about that 15% to 20% decline, it was definitely back-end loaded for us. So when we talk about the 15% to 20% decline, it really was quarter-over-quarter, and an exit rate.

The Eagle Ford is interesting. We definitely are going to see industry-wide decline there. At the same time, it is a great area, and if commodity prices are going to continue to stay constructive, I do think it is an area that has the potential for producers to return to fairly quickly.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. Thanks. And then in the DJ Basin, I think you guys had noted that utilization there is 95%. Are you guys going to still be able to take advantage of growth there, or are you kind of just bumping up against your capacity, or how do we think about that?

MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

That is a good question, Elvira. And we are really tremendously happy with the performance that we see in the DJ Basin. And it is not only all of the system improvements that we have made, where we see field pressures that have been lowered, which really helps a tremendous amount with vertical wells coming online. The overall system is just running really, really well.

Our producers continue to be working nicely in that area. You may have seen yesterday, Noble is selling a number of their acres-- their acreage, which actually is a great thing for us. The acreage that they sold was basically undeveloped acreage for them, and they were not really going to develop that acreage. It is now being sold to another company; virtually all of that acreage is dedicated to us. So we think that is a good thing for us, starting 2017.

If you then go to the overall-- where we are at the system-- we have some opportunities to offload to other people, but that basically means for us that our volumes can go into other peoples' system. From a return point of view, that is a very nice return, because you basically don't burden any capital, and you do get the margin.

At the same time, we also hold permits in hand. We have long lead time equipment, so with all said, if we continue to see growth there, the DJ Basin definitely could be one of the first areas for us where we say we need to do some expansion capital and see what we can build. But overall, the DJ Basin is really doing very, very well for us.

Elvira Scotto - RBC Capital Markets - Analyst

Okay, great. And then I just wanted to go to your slide 12 on the ethane recovery opportunity. Can you just reconcile these numbers for me?

You talk about the 650,000 barrels a day being rejected in the lower 48. 350,000 barrels a day rejected around your footprint. What is the difference between that number, and then the 65,000 to 70,000 that is being rejected-- that DCP enterprise is rejecting.

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

Let me kind of work those back for you. 650,000 is the industry as a whole. That is the entire gathering and processing industry. 350,000 is what is happening in our part of where we play. So for instance, we believe that the Permian, there's roughly about 100,000 barrels that are rejected in total.

The DJ Basin, kind of 100,000. Then the difference between the 650,000 and the 350,000 is areas like the Bakken and the Northeast. Then, going back to the 350,000 that is, in the entire footprint where we play, the DJ, the Permian, the Eagle Ford, East Texas, Midcontinent. We reject about 70,000 barrels, call it 65,000 to 70,000 barrels for the DCP enterprise as a whole, so those are barrels that flow through our systems or gas that comes from our plants.

If you take a split between DPM and LLC, it is probably one-thirds/ two-thirds. One-thirds of the 65,000 to 70,000 barrels are in plants that are part of the Partnership, and two-thirds are in the LLC. Does that answer your question?

Elvira Scotto - RBC Capital Markets - Analyst

Yes. That is perfect. It is very helpful. And just continuing on the ethane theme, are you guys talking to any of the petchem facilities? Would you actually lock in ethane sales, like provide them with supply under contract?



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

We are the largest NGL producer, as you know. We get a tremendous amount of goals from people. Everybody who is looking to do something with us, be it domestically or internationally, finds themselves to Don Baldrige, who runs our commercial department. So, there are things going on today where we are able to do deals were reported certain plans into ethane recovery and get ethane to the market center.

So there is a variety of opportunities for us, directly or indirectly, to benefit from this, not only in our marketing business, but also in our G&P business and then obviously that has an impact on our pipes as well. So when you think about ethane recovery, I would really think about three ways for us, where the enterprise, as a whole, can make money. On the pipes, on the G&P business-- that's probably is biggest one of all of them, if you think about commodity uplift that LLC can get-- and then on the marketing business, where we can make spreads in our marketing and trading business, or in our fractionation business.

Elvira Scotto - RBC Capital Markets - Analyst

Okay, got it. And then just the last one for me, I just wanted to clarify. For the DCP enterprise you're working towards an NGL break-even price, did you say of \$0.30?

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

That is correct. \$0.30. So if you think about where we are sitting today, \$0.45 NGL prices, we're working to a break-even price of roughly \$0.30. Our job is not to be break-even; our job is to be make sure that we are a very profitable company, and that is what we're working towards.

There are still opportunities for us to continue to take cost out of the system. To run better and be more efficient, to be more reliable. And that is what we're driving towards very hard.

Sean O'Brien - DCP Midstream Partners, LP - CFO

Elvira, this is Sean. In terms of execution, I would say that we're at about \$0.35 right now, as Wouter has indicated, our stretch goals are to get to \$0.30 or even a little below. There's still some work to do, but we are proud that we're already at the \$0.35 segment level.

Elvira Scotto - RBC Capital Markets - Analyst

That is great. Is the \$0.30 new, or were you guys always kind of targeting that \$0.30?

Wouter van Kempen - DCP Midstream Partners, LP - Chairman, CEO & President

When we rolled out all of our guidance in early February and late February, we were talking about \$0.35, but since then we have continued -- you recall January and especially February were pretty tough months. From a commodity point of view, we decided to say, there is more that we can do. We got all of our teams together and really started doing that in late December, early January to see re there additional things that we can do. And the team is really working hard on the \$0.30. Yes, it is a stretch goal, but it is something that we hope to deliver on.

Elvira Scotto - RBC Capital Markets - Analyst

Great. Excellent. Thanks for taking all of my questions.

MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

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

No problem. Thank you, Elvira.

Operator

(Operator Instructions)

Jeff Birnbaum from Wunderlich.

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

Good morning, everyone. Thanks for the incremental detail in the slides today. Very helpful. I wanted to follow up on a couple of things.

First, Wouter, on your comments about your ability to pass on volumes to third-party processors in the DJ, if you get kind of up to or beyond full capacity. I know that you mentioned you got permits for that next DJ plant, but I guess how do you think about the merits of doing that, passing on to third parties relative to building that next facility? And sort of given the limited CapEx you have left this year and the strong financial position at DPM, how does the evolving position at LLC factor into the decision-making process there?

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

I think there are a couple of things, Jeff, that you have to think about. First of all, we have seen goal at six weeks of better pricing environment here. That was not because it is a good pricing environment. It was as just because we're up from pretty dreadful pricing in February.

We're still sitting at \$0.45 NGL. If you would move back 12 to 18 months ago, I don't think anyone would be happy with looking at \$0.45 NGL. So I think that everything is relative. So you have to think about that first.

We have to continue to see what the producers are doing, and is this a temporary rally? Is it a sustained rally? Are producers willing to put capital back into the fields, start producing again?

There's still the rate count is relatively low. We have look at all of those things, and say, are we comfortable to make that long-term decision? As you know, we are not the build it and they will come type of company. We always try to manage our capacity and our utilization rates very closely. So what we will look at, and we will try to see, can we use, call it some of the low-capital opportunities that we have, where we offload to other people, and then still make a margin on what we're doing there?

And then, if we are seeing a more productive environment overall and are comfortable with the longer-term volume outlooks, that is when you probably want to put new capital to work so that you can fill it up really quickly. Think about what we did with Lucerne 2. The plant came online in the summer of 2015, and is now virtually full. That is the success that we are having and that is the business model that we are trying to achieve.

I am not looking forward to, and our team does not look forward to, just building a plant for the sake of building a plant, and then take two or three years to fill it up. So those are the things that we are all weighing. We have a tremendous amount of flexibility, and flexibility is good. We have permits in hand.

We have long lead time equipment in hand. We have offload opportunities where we can do so. We've other opportunities to optimize the system, and once we've kind of taken a look at all of those, combine it with the macro environment, that is where we say, okay, let's go forward and let's build a new plant and put steel on the ground.



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

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

Understood. And I guess one additional follow-up. Just on the stretch target of \$0.30 a gallon, what do you need to get there? What does it involve beyond the cost-reduction objectives you've already laid out across the DCP enterprise?

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

Jeff, this is Sean. The costs are definitely a portion of it. We are looking at-- we didn't talk as of yet about this, but the contract realignment efforts that we are doing. We're definitely stretch-goaling those numbers. I think most important thing, and Wouter talked a lot about this at the beginning of the call, is efficiencies.

I've been incredibly impressed, and we talked about the employees, and how they are delivering on how our assets are running. Wouter talked about all of these records in the DJ. We're seeing phenomenal performance of our assets in the Delaware Basin and the Permian. We are seeing great run-times across the board.

So I think it is more of really of the same levers we have been pushing and talking to you guys about since the beginning. But I think we have a lot of confidence on execution, and we're really seeing that we can deliver a little more on those things. That will get us to the \$0.30.

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

Jeff, let me put in four really simple pockets for you. First of all, reliability. When you run better, you run more efficient; that throws money to the bottom line. The second one is your overall cost structure, which we continue to attack really hard. The third one, contract realignment which gives us margin uplift and throws money to the bottom line. The last one is asset utilization. Make sure that you put as much volumes through your assets.

If you take those four together. If we execute on all of the different plans that we have in each of those categories, that is will get us to the \$0.30.

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

Thanks a lot.

Operator

(Operator Instructions)

Jerren Holder, Goldman Sachs.

Jerren Holder - *Goldman Sachs - Analyst*

Hello, good morning. Just a question on the cost. Looking at the \$48 million of operating excesses this quarter, is that a good run rate to use for the remainder of the year, just given that you guys are still targeting additional cost reductions?

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

Jerren, I think you're thinking about it right. As we get into the year, some of our cost reductions are more back-end loaded. Wouter talked about the reduction in force that we had.



MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

It is more than just that. We're working on efficiencies across the assets. So I think what we're expecting-- what you should expect to see is improvements in our run rate as we get through the year. And that also is in line with the concepts that we have heard earlier going from \$0.35 to \$0.30 on a break-even.

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

Got it. And in terms of the targeting and the addition \$90 million margin uplift for the DCP enterprise, how should we think about that breakdown between LLC versus the MLP?

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

I would think Jerren, this is Wouter speaking, it is predominantly on the LLC side of the house. To give you some numbers there, we are 75% there on getting to \$90 million for 2016. So that is another area where the team is executing really, really well. It's predominantly-- we're looking at this in the Permian and in the Midcontinent. So most of this will flow to LLC. At the same time, as you and I've discussed, as we have always discussed, the strong LLC means a strong DPM and a strong DPM means a strong LLC.

Jerren Holder - *Goldman Sachs - Analyst*

Okay. And last question for me, any update on how you guys think about drop downs, just given that capital market seems to be improving a little bit here?

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

I would look at that as a-- we've always saw everything kind of growth for growth. If there is a reason to do drop-downs because we need to raise capital, then obviously we have a tremendous inventory at LLC that could find itself into the partnership, and it is a very large inventory, as I think you are very well aware of. At the same time dropping for the sake of dropping, I don't think makes a tremendous amount of sense to figure out what are you going to do with the proceeds.

What we are doing here right now is continuing to look at what our options are. We have a tremendous amount of options and optionality, and what we're also doing -- and this goes back to your contract realignment-- we are creating more fee-based up on top at LLC, which means that the large inventory that we have available for drop is now also becoming more MLP-friendly. So I think that gives us a lot of opportunity. And if we want to go out and do something, we can always choose to do so.

Jerren Holder - *Goldman Sachs - Analyst*

Great, thanks. That is it for me.

Operator

I'm not showing any further questions at this time. I would now like to turn the call back over to Mr. Van Kempen for any closing remarks.

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

Thank you, Charlotte, and thank you everyone for joining us today. If you have any follow-up questions, please contact Andrea, Sean, or myself. Looking forward to seeing many of you at the MLPA conference in June, and have a great day. Thank you.

MAY 05, 2016 / 1:00PM, DPM - Q1 2016 DCP Midstream Partners LP Earnings Call

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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