DCP Midstream Partners LP

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Helen Rue: Good afternoon. I'm Helen Rue, MLT analyst at Barclays. Our next presenting company is DCP Midstream Partners. It's my pleasure to introduce Mark Borer, President and CEO.

Mark Borer: Thanks Helen, and good afternoon. I'm also joined today by Rose Robeson, Chief Financial Officer for the partnership, as well as Jonni Anwar, Director of Investor Relations. And I also want to express my thanks to Barclays for sponsoring these type of conferences. They're very important for the capital formation in the energy space. I will be making some forward looking statements today within the meaning of the security laws, so please read this slide and our SEC disclosures.

I'll start today with the partnership's key investment highlights. Our affiliation with DCP Midstream, Spectra Energy and Phillips 66 provides us with a number of competitive advantages. In addition to the Spectra and Phillips 66 ownership interest, we also have a number, or a number of strategic and commercial relationships with them. In conjunction with our general partner, we are the primary vehicle for their long-term strategic investment and participation in the Midstream space.

You'll see today, we have a diverse business model and geographic footprint, with significant fee-based businesses, and a multi-year hedging program. This supports our growth strategy and provides a stable platform for distribution growth. We're well underway to executing our growth strategy with a viable pipeline, approximately $3 billion of growth opportunity. This growth will be instrumental in supporting our goal of becoming a large scale, diversified, midstream MLP, and providing top quartile return for our unit holders. And lastly, we have investment grade ratings from all three rating agencies, and have demonstrated access to both equity and debt capital markets. Given all these factors, we believe DPM presents a compelling investment opportunity with our commitment to being a leader in the midstream space.

I'd like to spend a couple minutes on our ownership structure and sponsorship. Starting at the top, Spectra Energy and Phillips are the 50/50 owners of DCP Midstream LLC, or as I'll refer to them as LLC in this discussion. They're one of the largest gathering and processing companies in the U.S. In terms of size, LLC has about $10 billion of assets at their level. Effective May 1, ConocoPhillips completed the spinoff of their downstream business, Phillips 66, who now owns the 50 percent interest in LLC.

Below LLC is DPM, or DCP Midstream Partners, the public entity that I represent. As we discuss our growth plans today, I will at times refer to LLC and DPM collectively as the DCP enterprise. LLC, which owns our GP and over 25 percent of DPM, is a private company that's implemented a co-investment strategy with DPM to fund growth for the overall enterprise. It's important to note that DPM is the public entity, provides the necessary access to the public equity markets. As such, DPM is a key component for funding the overall growth of the DCP enterprise.

Let me discuss the DCP enterprise in a little bit more detail. The enterprise is the largest producer of natural gas liquids in the U.S., producing approximately 400 thousand barrels per day, which is approximately 16 percent of U.S. natural gas liquids production from gas processing plants. We're also among the largest gas gatherers and processors in the U.S., with throughput of over seven trillion BTUs per day. Together, LLC and DPM represents a broad-based asset platform operating across multiple producing regions, with over 60 processing plants, 12 fractionators, and approximately 62,000 miles of pipeline.

The DCP enterprise is involved in all aspects of the gathering, processing, treating, storing, and marketing of natural gas, as well as the production, fractionation, transportation, marketing, and storage of natural gas liquids. We believe this is a business where size and scale matters, and enhances our ability to offer customers superior overall value and service. The DCP enterprise has an excellent asset position concentrated in basins where NGL and crude fundamentals support active drilling. This drilling activity has led to a $4 billion plus slate of projects in execution for the DCP enterprise.

We have two major NGL pipelines under construction. The Sand Hills pipeline provides NGL transportation service from the Permian and Eagle Ford to Belvieu. The Southern Hills pipeline, which will originate in the mid-continent, will provide transportation from there to the Gulf Coast markets. These pipelines are on target to be placed into service, by full service by mid-2013, with partial service to Sand Hills later this year.

A couple of recently announced projects will add additional flexibility to the DCP enterprise interconnected system. The new Front Range pipeline, jointly being developed by LLC enterprise and Anadarko, will connect producers in the D-J Basin, through reliable takeaway capacity and market access to the Gulf Coast. In addition, DPM acquired a 10 percent interest in the Texas Express pipeline joining Enterprise, Enbridge and Anadarko in a joint venture. All of these pipeline projects are primarily supported by volumes owned or controlled by the owners. In addition to these fee-based pipelines, LLC has also announced plans to build more than 700 million cubic feet per day of new processing capacity, and over 1,500 miles of new gathering infrastructure between 2011 and 2015.

Let me now turn to a brief operational and key growth project update for the assets held directly by DPM. Our natural gas services segment generates margins from a mix of fee and commodity-based businesses, with our commodity positions substantially hedged. We have continued to see strong drilling in the liquids rich areas. As a reminder, our dry gas exposure is relatively limited, and where we are in dry gas basins, we generally have contract structures that mitigate volume exposure.

This segment continues to experience substantial growth, with our late first quarter drop down of the remaining two-third's interest in our Southeast Texas business, the ongoing construction of the Eagle Ford processing plant, targeted to go in service later this year, and our July Crossroads system acquisition in East Texas. And finally, our Keathley Canyon organic growth project at Discovery, in the offshore, is well underway with a target in-service date in mid-2014.

Our NGL existing segment provides broad exposure to the NGL value chain, with assets that are well positioned in growing markets,, such as the Eagle Ford and D-J Basin. We're pleased with the significant growth in scale and scope of this predominately fee-based business over a short period of time, including our recently announced 10 percent interest in Texas Express, and the July 200 million dropdown of the Mount Belvieu fractionators. We expect this segment to have significant growth in the next couple of years, with our targeted dropdown of the Southern Hills and Sand Hills pipelines.

Despite a record warm winter last year, our wholesale propane segment continues to have a favorable market position, and is one of the largest wholes propane suppliers in the Northeast and Mid-Atlantic markets. A key competitive advantage of this business is its breadth of supply options, which not supply our base business, but also allow us to capture upside opportunities during favorable demand periods.

Let me now give an update on our co-investment activity with LLC. Slide 8 shows our updated co-investment activity in our various forms of co-investment. Co-investment has continued at a nice pace. As you can see, this quarter, with the addition of Mount Belvieu fracs, the cumulative amount of co-investment now stands at almost $1 billion over the last year and a half. As we have done in the past, this timeline is based on when the investments were announced.

Next I'd like to spend a few minutes on our capital forecast and distribution growth outlook. Our capital commitment outlook for 2012 currently stands at approximately $900 million, including $685 million in co-investments with our general partner, $150 million in organic growth, and the $63 million Crossroads acquisition. Of the $685 million in co-investments, we've completed approximately $525 million year-to-date, including the Southeast Texas dropdown, Texas Express investment, and the Mount Belvieu fractionator dropdown. With this growth capital outlook, our targeted distribution growth rate remains intact at six to eight percent in 2012, and six to ten percent in 2013 and 2014.

Our growth investments are also expected to be transformational in nature, as you can see in this slide. The emphasis on NGL infrastructure investment will continue to increase both our fee-based margins and our asset diversity. With our gathering and processing investments, we will target a healthy mix of fee-based assets, although the percentage of fee-based may fluctuate periodically, depending on the nature and timing of specific investments.

Of our commodity based margins, we intend to continue to hedge a significant portion of our equity position in natural gas liquids, condensate and natural gas in the current year, and maintain a multi-year hedging program. Our sizable fee-based revenues, multi-year hedging program, and asset diversity underpins our investment grade ratings and steady distributions that are key for MLP investors, and important to our overall strategy.

As we consider our growth outlook, a key element is our financial positioning. We remain in a very strong position to continue to execute on our growth plans, and provide a very effective source of funding growth for the DCP Midstream enterprise. We have a competitive cost of capital with our investment grade ratings, and demonstrated access to the capital markets. We are well positioned to fund ongoing growth. We raised approximately $175 million in equity in early July through a private place in support of this growth. Our leverage ratio at the end of the second quarter was 3.4 times, well within our targeted range of 3 to 4 times.

We continue to maintain significant liquidity, as we execute on our growth plans. We have termed out more than 60 percent of our bank debt, and our overall debt rate of approximately 3.7 percent is extremely competitive. In addition, our track record as a seasoned, frequent issuer of equity, coupled with our proven access to the investment grade debt markets, is a competitive strength. And lastly, we have approximately $650 million of available capacity on our bank lines, providing additional and substantial liquidity.

I will close where I started with our key investment highlights. Our affiliations with LLC, Spectra Energy and Phillips 66 provides us with a significant competitive advantage. In conjunction with our general partner, we are the primary vehicle for their long-term strategic investment in the space. We have a diverse business model and geographic footprint, with significant fee-based businesses. We're well underway in executing on our growth strategy, with a visible pipeline of approximately three billion of growth opportunities for the partnership.

This growth will be instrumental in supporting our goal of becoming a large scale, diversified midstream MLP and providing top quartile returns for our unit holders. And lastly, we have investment grade ratings from all three rating agencies, and have demonstrated access to both the debt and equity markets. Given all these factors, we hope you will find that DCP Midstream Partners presents a compelling investment opportunity with our commitment to be a leader in the midstream space. I appreciate your time today. I'll be glad to take any questions you might have.

Unidentified Participant: As your fee-based earnings grow with the dropdowns, do you see less of a need to hedge your equity NGL exposure in the future perhaps? And secondly, have you noticed any change in the liquidity, or the depth of the market for hedging forward NGL exposure?

Mark Borer: Relative to the first part of the question, clearly commodity-based margins will, as a percent of the whole, will trend lower over time. I'm sure you saw the earlier slide where we showed our expectation of fee-based margins being in the 65 to 80 percent. Just by the magnitude of that growth, you know, we likely will not need to have as much hedging on the commodity end. You know, we do like -- this year we're about 90 percent, either commodity hedged or fee-based. And that's been a good position to be in. I can see that that would fluctuate in and around that level though.

And then as far as the liquidity and the forward markets, crude and gas have very good forward liquidity. On the natural gas liquids side, I would say generally it's out to three years, with the most liquidity being in the first 12 to 18 months. And that's been improving on that front. I wouldn't say it's substantially changed, but the trend is positive. Thank you.

Unidentified Participant: Hi. Would you comment on the current ethane glut and how that might be impacting your business and what you're doing to cope with that?

Mark Borer: The question relates to the current ethane glut and what we're doing to cope with that. Yeah, I think from an industry -- I'll talk about it just from an industry perspective, as well as just a little bit from the partnership. From an industry viewpoint, there definitely was excess ethane over the past several months. I think as you look at petro chemical markets, we had a situation where pet chem margins were so favorable in '10 and '11 that I think quite frankly there was some turnarounds deferred. And then secondly, they had, you know, their normal turnarounds plus some deferred and some forced outages. So I think the intersection of those events did impact what went on in ethane markets.

Relative to those turnarounds though, industry analysts have indicated that they believe that the ability to consume ethane after these turnarounds has increased. And I'm talking about turnarounds over the last six to nine months, such that you could have as much as capabilities of 100,000, maybe as high as 150,000 barrels a day more ethane cracking capacity. So that's a good thing, so as part of that.

The industry is reacting to the ethane softness by rejecting ethane. Estimates on that front have been north of 100,000 barrels a day. Folks that have a Conway market, probably have been more impacted by that. The partnership is predominately a Belvieu market for its product. So I think, from that viewpoint, the industry has reacted. I've been around this space a long time. Industry goes through periods where you need to reject ethane to balance markets and I think, you know, clearly some of that's been done.

You know, longer term, I have a pretty optimistic outlook, just based upon the huge incentives there are for pet chems to consume ethane. So I think, I think longer term we'll see more and more use of the product and probably a more favorable market environment we experienced over the last several months. Thank you.

Unidentified Participant: Any thought about the capacity getting built to Mount Belvieu? There's obviously quite a bit of pipeline capacity. You guys are participating in that as well as pipeline capacity from Conway. How do you see that -- how do you see that capacity impacting pricing at Mount Belvieu, and certainly relative to Conway as well?

Mark Borer: We are participating in the Southern Hills pipeline, which we'll have in service by mid-2013, you know, roughly 160,000 barrels a day of capacity to bring raw mix from the mid-continent markets down to Belvieu. And when I say we are participating, that's being executed by LLC, and that's a targeted dropdown to the partnership in the '13, '14 timeframe.

Relative to -- you know, generally we would expect those markets to more converge in the future. There's been very wide spreads to Belvieu from Conway. Clearly there's an incentive today to move the product to Belvieu. Belvieu has continued to debottleneck, build fractionation, and that's where ultimately these world scale crackers will be built. Over time, I think that those spreads will converge more to the cost of transportation between those markets. There will be timeframes and episodes where there's these disconnects, but clearly there's an incentive to get it to Belvieu. And, you know, we plan on providing that market access for our customers. Thank you. Yes sir?

Unidentified Participant: (Inaudible) on the status of your Gulf Coast facilities post-Isaac.

Mark Borer: The question was, could I update the status of our Gulf Coast facilities post-Isaac. We had very limited impact, both at LLC and at DPM, the partnership, from the hurricane. Producers did shut in some offshore production, beginning about a week ago. Monday I think was the actual day, a week ago Monday. By Friday, Saturday timeframe, on our Discovery asset, people were turning back volumes, turning production volumes back on.

I'm not aware of whether there was any significant damage to any producer facilities. I think we'll find that out over coming days. But I think for the most part those facilities are built to handle a storm of that nature. We had virtually no damage on our facilities and are in the process of ramping back up.

Unidentified Participant: Flood related issues.

Mark Borer: Very modest flood related. I mean there will be some excess water in the yard (ph) such that we have a very well-constructed facility with levees and such. So, you know, no material damage, back in service. Thank you.

Helen Rue: Mark, with the $4 billion of co-investment strategy, that will include the pipeline, the major NGL pipelines being built, including you know Southern Hill, Sand Hills, et cetera. Could you update us on the contracting activity at those pipes? And if you could speak to what kind of return profile that means for the LLC with the contracts you have in place.

Mark Borer: Okay. Thank you, Helen. The question relates to an update on activity on Sand Hills and Southern Hills, and our contracting activity as well as returns. Both projects continue to go well, both from a construction viewpoint as well as commercially. We've indicated for some time that we control 50 to 70 percent of the volumes necessary to fill up the initial capacity of those systems. So on Sand Hills, the Sand Hills initial capacity is 200,000 barrels a day. Southern Hills is about 160,000, 165,000 barrels a day.

We've announced, at LLC, certain contracts with Targa, Oxi (ph), with Atlas. And beyond that, we haven't announced too many more specifics on that, for competitive reasons, but I would tell you that we believe we're on target to provide Eagle Ford service later this year. That will also include from our own Eagle plant, which will be increased production there. And we believe we can have both pipes in service in mid-2013.

Relative to returns on this, I would say it's typical of long haul pipelines and interstate type returns. So, from a pre-tax viewpoint, that's probably low to mid-teens. But, you know, that's part of the prize. The other part of the prize obviously is really improving product neck (ph) backs for our production as well as for our customers, and provide that market access. And then that's also spawning additional activity from an investment viewpoint in gathering and processing facilities. So, you know, really from an integrated value chain, the opportunity to participate in the pipes, participate in fractionation over time, gathering and processing assets, and we believe all those in the aggregate will provide very attractive returns. Thank you.

Unidentified Participant: Do you consider your propane business as core to DPM or would you sell it at the right price?

Mark Borer: In the latter part, I guess everything's for sale at the right price. But, no, it's been a -- it's been a very good business for us. If you think about what we do in the wholesale propane business, it's about 15 percent of last year's EBITDA. We're basically using the skillset to -- that we use for moving product around the rest of the country. If you think about the mid-continent, the Gulf Coast and the west, where our predominant assets are, we use our logistics and optimization to fractionate product and get it to the highest value markets.

We basically have taken that same wholesale model and applied it to the propane part of the barrel. So, it's a business that we've had very good success with over the years, increasing earnings year-over-year. I think we had about a five year run on a fiscal year basis. And so it's a -- and it's a low-maintenance capital business and attractive to the MLP structure. Yes sir?

Unidentified Participant: If I could just ask a quick follow-up question to the Hills contracting status. Roughly how much of the contracts are with the LLC versus with third parties? And would the goal be, over time, to migrate more of the contracts to third parties? Or is the goal to, just to fill up the amount that's not currently contracted with third party volumes?

Mark Borer: Ultimately the goal is to fill the system. And in our contract structures, there's many contract structures where we control the product, and actually the producer will come to us and ask us for a -- they'll ask us for a contract structure which basically gathers and processes the gas, and they'd like for us also to market and or transport the NGLs. So we -- we don't look at it too much between the split of what's a direct transportation contract.

We obviously need to do things right, regulatory wise, and obviously we do that. But it's one in which they -- many producers have committed their liquids and gas to us for marketing. And our job there is to get it to the highest value market we can. And we share, many times, in the proceeds. A lot of structures at LLC are where we share in a percent of proceeds from those NGLs. So in that regard, we'll continue to control a lot of barrels that way. Having said that, we will also have contracts where somebody has come to us and signed a multi-year contract for -- you know, and they'll commit to a T&D level, you know, for throughput volume. So we'll control volumes through acreage dedication, so we'll also control volumes and ship volumes under T&D transportation contracts. Thank you.

Okay. Well thank you again for your interest in the partnership. And if you have any follow-up questions, we have a breakout in Liberty five. So thank you for your time today. I appreciate it.