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DPM - Q3 2012 DCP Midstream Partners, LP Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Q3 earnings release conference call. My name is John and I will be your operator for today's call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. Jonni Anwar. Mr. Anwar, you may begin.

Jonni Anwar *- DCP Midstream Partners, LP - Director of Investor Relations*

Thank you, John. Good morning, and welcome to the DCP Midstream Partners' third-quarter 2012 earnings conference call. As always, we want to thank you for your interest in DPM. This call is being webcast, and the slides used for today's call are available on our website at www.dcppartners.com.

As a reminder, our discussion today may contain 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 lists some of the risk factors that may affect our actual results.

For a complete listing of those risk factors, please review our most recent Form 10-K and Form 10-Q's as filed with the SEC. During our discussion, we will use various non-GAAP measures, which are reconciled to the nearest GAAP measures in schedules provided in the Appendix section of slides used for today's call.

And now let me turn it over to our first speaker, Mark Borer, our Chief Executive Officer.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thanks, Johnny. Good morning, everyone. First, let me wish everyone who has been affected by Hurricane Sandy the best of luck in the recovery efforts. Many of our employees, shareholders, customers, and friends were impacted by this devastating storm, and we're supportive of efforts being made to help get lives back to normal. Our thoughts and prayers are with you all.

Thanks for joining us today for a discussion of our third-quarter results. Also joining me today is Bill Waldheim, who was recently appointed as President of DPM; and Rose Robeson, our Chief Financial Officer.

As you saw in our press release last evening, we reported third-quarter results which were in line with our 2012 DCF guidance. We raised our distribution again this quarter, representing a 6.25% year-over-year increase, in line with our forecast of 6% to 8% distribution growth in 2012. This distribution increase reflects our continued confidence in the future cash flows from our visible growth.

We're also very pleased to announce that we have completed a $438 million transaction with our general partner in the prolific Eagle Ford area. This exciting and immediately accretive transaction is a continued demonstration of the attractiveness of our co-investment strategy with our general partner. This transaction is the largest in DPM's history, which Bill will cover in more detail shortly. With this co-investment, we have significantly exceeded our previously provided co-investment growth target for 2012, and are well on our way to meeting our targeted $3 billion of growth capital for the 2012 through '14 timeframe.

With that, let me turn things over to Bill Waldheim.

Bill Waldheim - *DCP Midstream Partners, LP - President*

Thanks, Mark. And thanks to everyone for joining us this morning. I'd first like to take this opportunity to thank Mark for his dedication and service to DPM, and wish him well on his future endeavors. I'm also pleased to be assuming the leadership role at DPM, as we have a great base to build upon, with tremendous growth opportunities before us. In short, I'm excited about the future of DPM.

Now if you turn to slide 4, let me provide a brief operational overview and then update on our key growth projects.

Our Natural Gas Services segment continues to experience substantial growth, with the announcement yesterday of our drop-down of a one-third interest in the Eagle Ford system. This transaction is a strategic investment in the Eagle Ford Shale, and is a nice complement to our Eagle processing plant, targeted to go into service later this year. I will provide more details on this transaction on the next slide.

In our Natural Gas Services segment, we continue to see strong drilling in the liquids-rich areas and a recent recovery in NGL prices. As a reminder, this segment generates margins from a mix of fee and commodity-based businesses, with our commodity positions substantially hedged.

Turning to NGL Logistics, this segment provides broad exposure to the NGL value chain, with assets that are well-positioned in strong growing markets, such as the Eagle Ford, DJ Basin and Mont Belvieu markets. We are pleased with the significant growth and scale and scope of this predominantly fee-based business over a short period of time, including the $200 million drop-down of the Mont Belvieu fractionators this past July. We expect this segment to have significant growth in the next couple of years, with the targeted drop-down of a one-third interest in the Southern Hills and Sand Hills pipelines from our general partner.

Our third segment is Wholesale Propane Logistics, which we are happy to report did not experience any damage and only a minor business interruption from Hurricane Sandy. This segment is a seasonal business and we continue to have a favorable competitive position.

Turning to slide 5, let me provide some additional details on the Eagle Ford drop-down announced yesterday. Effective November 1, we have formed a joint venture with DCP Midstream in the Eagle Ford area, and DPM now owns one-third interest. This immediately accretive drop-down includes five cryogenic plants with 760 million a day of processing capacity, approximately 6000 miles of gathering systems, and 36,000 barrels per day of fractionation capacity.

We have had tremendous success in this area, with significant volume ramp-up during the last six months, with production from 900,000 acres supported by acreage dedications or throughput commitments under long-term agreements. Our contracts are predominantly percent of proceeds. However, as part of this transaction, DCP Midstream provided a three-year direct commodity price hedge.

And lastly, this investment provides synergies with our Eagle plant and associated fee-based processing contract, expected to come online later this year. The Eagle Ford area continues to grow, as we discussed last month at our DCP Midstream Investor Day. We expect to approve the construction of another plant in this area in the coming months. So, more to follow.

Let me now give you an update on our co-investment activity with our general partner, DCP Midstream. This slide 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 with the addition of the Eagle Ford drop-down, the cumulative amount of co-investment now stands at about $1.4 billion since the fourth quarter of 2010.

If you turn to the next slide, with the Eagle Ford system co-investment, that brings our 2012 co-investment to close to $1 billion, well in excess of our previous forecast of $685 million. As Mark indicated earlier, we have significantly exceeded our previously provided co-investment growth target for 2012, and are well on our way to meeting our targeted $3 billion of growth capital for 2012 to 2014 timeframe. With this growth capital outlook, our targeted distribution growth remains intact at 6% to 8% in 2012, and 6% to 10% in the 2013 to 2014 timeframe.

Now let me turn it over to Rose to review the numbers.

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Thanks, Bill. I would also like to thank everyone for joining our call today. Before I review the results, I wanted to mention as a reminder, under common control accounting treatment, our 2011 results reflect Southeast Texas as if we owned the assets for the 2011 periods. However, my discussion today will compare our results to the 2011 as-reported numbers, which better reflect the trends and results achieved over time.

So let's take a look at the quarter. Our adjusted EBITDA for the third quarter of 2012 increased over 45% to $47.1 million, compared to adjusted EBITDA as reported for third quarter of 2011 of $32.3 million. Third-quarter results reflect growth in our Natural Gas Services segment from the drop-down of DCP Midstreams' remaining interest in the East Texas and Southeast Texas joint ventures, the Crossroads acquisition, and growth in our NGL Logistics segment from the July 2012 drop-down of the Mount Belvieu fractionators.

Distributable cash flow for the third quarter increased 28% to $35.4 million as compared to $27.6 million in third quarter of 2011. Our distribution coverage ratio for this trailing 12 months is approximately 0.9 times adjusted for the timing of actual distributions paid. Although this coverage is lower than our target range of 1.1 to 1.2, this ratio includes a non-cash lower cost [or] market inventory adjustment recorded last quarter in our wholesale propane business, and reflects the financing lease time impact of ongoing organic growth projects, such as the Eagle plant and Keathley Canyon.

Now let's take a look at our earnings by business segment. Starting on slide 9 with Natural Gas Services, our adjusted EBITDA for the third quarter increased 44% to $42.5 million from $29.6 million in third quarter of 2011, reflecting growth related to the East Texas and Southeast Texas drop-down, as well as the Crossroads acquisition. Partially offsetting this growth was continued weakness in commodity prices, and timing of storage margins and certain operating expenses.

As a reminder, for 2012, we are approximately 70% hedged on an overall basis, and about 60% of our NGL hedges are direct product hedges. While the Mont Belvieu barrel experienced a 42% NGL to crude ratio for the quarter versus [57%] in the third quarter of 2011, the barrel has recently recovered to nearly 50%, so we are seeing a nice recovery in the NGL to crude ratio. Our natural gas throughput is up 43%, and NGL production is up 55% in the third quarter of 2012, versus the as-reported volumes in 2011, primarily associated with growth from our East and Southeast Texas assets.

Turning to slide 10, our NGL Logistics adjusted EBITDA for the third quarter increased 68% to $15.8 million from $9.4 million in third quarter of 2011, reflecting growth related to the Mont Belvieu fractionator drop-down and increased throughput on our pipeline. Third-quarter 2012 volumes are slightly higher than third quarter of 2011, reflecting growth in our pipeline, partially offset by lower throughput volumes due to ethane rejection at certain connected processing facilities. Comparing our year-to-date volumes versus last year, volumes are 30% higher, due to continued liquids-rich drilling in the DJ and Eagle Ford, or related infrastructure growth and the Wattenberg expansion project.

Slide 11 shows results from our Wholesale Propane segment. Adjusted EBITDA in the third quarter was breakeven versus $2.7 million in third quarter of 2011. This business has significant seasonality, with the majority of the earnings coming during the first and fourth quarters. In addition to our normal seasonality in the business, margins were down in the third quarter of 2012, due to the delayed start of our seasonal sales resulting from higher than normal inventory levels.

And lastly, our year-to-date results reflect a significant non-cash LCM adjustment -- inventory adjustment recorded in the second quarter of 2012, which we expect to recover over the coming winter heating season.

Now let me review our DCF forecasts. Although our business is substantially fee-based or commodity hedged, we do provide our forecasts in the context of the commodity pricing environment. If you take into account the commodity prices year-to-date and the forward curve for the balance of 2012, the table would indicate 2012 DCF at the low end of the $165 million to $180 million range.

Our 2012 forecast did not include growth in 2012 except for the Southeast Texas drop-down closed at the end of the first quarter. The additional growth in 2012 is offsetting the weaker results in wholesale propane. Therefore, we would expect to achieve our 2012 DCF forecast range. As we have previously indicated, we are targeting distribution growth of 6% to 8% in 2012. At a $0.01 increase per quarter, our 2012 distribution growth rate would be slightly above 6%, which is in line with our forecast.

And lastly, if you turn to slide 13, 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 very competitive cost of capital. And with our investment grade ratings and demonstrated access to the capital markets, we are well-positioned to fund our growth.

Our leverage ratio at the end of the third quarter was 3.3 times, at the low end of our targeted range of 3 to 4 times. And lastly, we continue to have significant liquidity to execute on our growth plans, with about $700 million available on our revolving credit facility.

So now let me turn it back to Mark for some concluding remarks.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thanks, Rose. Turning to slide 14, as we outlined this morning, we are on track to deliver our 2012 business plan and three-year outlook commitments. We are successfully executing on our growth strategy. The visible growth opportunities currently in our pipeline put us well on our way to becoming a large-scale diversified midstream MLP.

Given the sources of our opportunities at both DPM and our general partner, the growth strategy continues to be multifaceted, with relatively more emphasis on co-investment over the next few years. Our target continues to be top quartile total shareholder return, which is underpinned by our visible growth opportunities and strong distribution growth outlook. And having the strong sponsorship from our general partner, DCP Midstream, and its owners, Spectra Energy and Phillips 66, provides us with a competitive advantage.

Finally, as I announced in August, I am retiring as CEO of DPM at the end of the year. My last six years as CEO have been a truly rewarding experience. I'm proud of what we have accomplished over this time and the value creation that we have provided to our shareholders.

Looking forward, with a strong portfolio of growth projects, DPM is well-positioned for future growth. The transition with Bill has gone well. I'm confident that Bill will continue to lead and execute the growth strategy for this great Company. I certainly enjoyed working with all of you over the years. While I will miss leading DPM, I am looking forward to the opportunity to experience other avenues of personal and professional growth.

So, with that, I want to thank you for your interest in DPM. And I'll turn it back to the Operator for your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gabe Moreen, Bank of America.

Kathleen King - *BofA Merrill Lynch - Analyst*

Thank you. This is actually Kathleen King in place of Gabe, but -- first question, just on the drop-down, I know you guys put out there some historical financials associated with the Eagle Ford assets. And is 15 times 2011 EBITDA a reasonable multiple? Or am I off in that calculation?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Kathleen, Rose and I will take that one. Just first, I'd say while we do not disclose the specific acquisition multiple, historically, we've stood behind that our drop-down multiples have been in the 7 to 9 range, based on the 12 -- the first 12 months of us owning the asset. And this transaction is really no different as to how we look at it.

Rose can kind of walk you through a little bit the historicals and the financials we filed on the 8-K.

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Sure. Thanks, Mark. Kathleen, just a couple of things. We did file our audited financial statements yesterday. And I think the first point that I would make is that the methodology for allocating G&A for the newly-formed JV is based on a modified mass formula, versus our audited historical results, or based on an allocation of G&A, based on net book value of the assets. So, that's somewhere in around a $13 million impact. So it's not a true comparison.

And then my second point is that, this area has seen a significant ramp-up in margins and volumes in the last several months. We talked about this a little bit on our Investor Day. If you look back at the end of 2010, we processed about 10 million a day of Eagle Ford gas. Today, we're at 250 million a day, and would expect to exit this year at north of 300 million a day; almost a 30-fold increase in two years.

And then, the production that feeds these volumes is backed by almost 900,000 acres, up from about 500,000 acres in 2011. And then legacy volumes make up over half of our values today. So, I think, again, to re-emphasize Mark's point, I think the way to think about the multiple is more on a forward EBITDA basis. And you can think about it in terms of some of our other G&P drop-down transactions. So, something in the 7x to 9x range.

Kathleen King - *BofA Merrill Lynch - Analyst*

Got it. That's really helpful color. And then question on the hedges. Can you talk about what price levels those hedges are, versus current market prices? And then also, if those are NGL product specific hedges? Or if they're more crude oil proxy hedges?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes, Kathleen. What we put in place, first of all, the asset generates about 80%, 85%, they're commodity-based margins with the balance of it being fee-based. And we're -- at the end of the day, we're long NGLs, long residue gas and condensate. Specifically, we did put on direct product hedges for the NGL exposure. That's the majority of the commodity exposure. We also put on residue gas hedges and some crude oil hedges.

In round numbers, if you were looking at it on a Belvieu, kind of an industry Belvieu barrel, our hedges -- the direct product hedges averaged about $1.10 per gallon on a Mont Belvieu barrel. And as you'll see when we file the 10-Q, we also have the -- about $95 on the crude oil hedges and about [$4.50] on natural gas.

Kathleen King - *BofA Merrill Lynch - Analyst*

Got it. Thanks for that. And then switching gears onto wholesale propane, I know you guys talked about higher inventories impacting this quarter's results. Do you expect any continued impact of higher inventories on your winter results for the upcoming season?

Bill Waldheim - *DCP Midstream Partners, LP - President*

Kathleen, this is Bill Waldheim. The wholesale propane business had a good contracting season this year. And we expect to have, assuming normal weather, back to normal sales for this business. And as we work off that inventory, we will recover the LCM that was taken earlier this year.

Kathleen King - *BofA Merrill Lynch - Analyst*

Okay, thanks. And then last one from me, just any updates on the discovery asset? I know that 2Q equity earnings there were a bit lower than we expected, maybe similar mutated drilling activity around that asset. But any update there?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Kathleen, this is Mark again. You know, we've had the lingering impacts of the moratorium there impacting us somewhat from Macondo and such. But we do have a couple of blocks coming on in '13. And then we have a very bright outlook for it, based on what we're seeing in the Keathley Canyon expansion, which will be completed in mid-'14.

So I'd say we're probably pretty stable as we kind of look in the -- between -- it's not going to change a lot between now and '14; but as we get into '14 and then just the type of areas that -- and the opportunity set we see along with Keathley Canyon, both the existing commitments as well as future commitments that we anticipate, we actually have a pretty bright outlook there.

Kathleen King - *BofA Merrill Lynch - Analyst*

Thanks a lot, Mark.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thank you.

Operator

Brett Reilly, Credit Suisse.

Brett Reilly - *Credit Suisse - Analyst*

So as it pertains to distribution growth moving forward into 2013, 2014, any ability to maybe narrow that range, now that we're moving into the end of 2012, and your co-investment activity has been a little bit higher than previously thought? Is there any way to narrow that range for us? Or is the outlook for NGLs, really, I guess, keeping you guys on hold for now?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Good morning, Brett. This is Mark again. I would say, I mean, clearly, we're going to be in the 6%-plus range this year. As we lay out, or as Bill and Rose lay out the 2013 and 2014 plan, we may be able to refine that some. But we feel comfortable with that range. And with respect to the timing of the organic growth projects and such, we think it's a reasonable range. And it's possible we would tighten it up as we go forward and lay out our 2013 business plan.

Brett Reilly - *Credit Suisse - Analyst*

Okay. And then as it relates to the hedges for the rest of the business, you know, 2013 hedges or percent hedge comes down a little bit. Have you guys added any to the outer years? Or are you guys looking to do any additional hedging as we move into the end of the year?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Brett, this is Rose. As we indicated on the Alamo -- or the -- excuse me, the Eagle Ford transaction, we did -- that transaction did come with three-year hedges. So we will be updating our hedged percentages when we have our year-end call, and we will update those percentages. But certainly, with that transaction, that will move our hedge percentages up a bit.

Brett Reilly - *Credit Suisse - Analyst*

Okay. And then is there any way to break out how much the Mont Belvieu fractionators have contributed in the quarter?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Yes, the acquisition of Mont Belvieu, the growth, it was around $5 million of incremental EBITDA for the quarter.

Brett Reilly - *Credit Suisse - Analyst*

Okay. That's all for me, thanks.

Operator

Helen Ryoo, Barclays.

Helen Ryoo - *Barclays Capital - Analyst*

On your Eagle Ford drop-down, I guess you mentioned that you expect to exit 2012 with about 300 million in that volume. So does that imply about 40% utilization on the 760 million total capacity?

Mark Borer - *DCP Midstream Partners, LP - CEO*

So, Helen, this is Mark. We also have legacy gas there, I would say, from the -- from our Central System in South Texas. So, today in round numbers, that legacy gas probably makes up around 55% to 65% of the volumes. So we're actually running at a utilization rate that -- the utilization rate is ramped up, so I want to make sure we capture that point. But we're probably running a utilization rate around 90% at this point in time. And we continue to sign new contracts, as well as the Eagle Ford volumes ramp up. So, that mix of the Eagle Ford will increase over time.

Helen Ryoo - *Barclays Capital - Analyst*

So is it 90% on the 760 million cubic feet per day of new capacity that you're getting on this drop-down?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Roughly in the 85%, 90% range for that 760 million; of course, we own one-third of the venture. But those are 8/8th numbers or the 100% numbers, so to speak.

Helen Ryoo - *Barclays Capital - Analyst*

Right. Okay. What about the fractionation utilization? Is that full or how does it look like there?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Generally, the fractionators are running at a pretty high rate as well. We have good access that those provide us to some of the local markets with the large petrochemicals, as well as the Corpus Christi market as well. So they're running at a pretty high utilization rate as well.

Helen Ryoo - *Barclays Capital - Analyst*

Okay. And then you mentioned that you plan to approve another project. Could you maybe talk about the size and the timing?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes. We have another project that we actually are going to call the Goliad project. It's in Goliad County, so we had to look pretty far for that name. But the Goliad project, we are in a advanced stage of development from a scoping and engineering, as well as the commercial agreements supporting that. We would anticipate, in the next couple of months, that we would bring that project forth to the Boards. We are contemplating a 200 million cubic feet a day size on that. And we'll be looking at approving that, hopefully, as things come together.

Helen Ryoo - *Barclays Capital - Analyst*

And is that for 2013 in-service?

Mark Borer - *DCP Midstream Partners, LP - CEO*

You said 2013? I'm sorry?

Helen Ryoo - *Barclays Capital - Analyst*

Yes, yes. So in terms of service time, do you expect that to come online during 2013?

Mark Borer - *DCP Midstream Partners, LP - CEO*

No. But we actually discussed it briefly on Investor Day, and we would anticipate coming on early in 2014.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. And then, just a clarification on the DCP hedges related to the asset drop-down. So I guess essentially for the next three years, this asset would work as a fee-based asset, given all of your commodity exposure is hedged directly with DCP?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes. It would really be driven by the volume and operating performance of the asset. But we do have a hedge that will manage the partnership's commodity exposure for the joint venture. So it will be at the partnership's level.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. And then just a question on your net cash segment. Obviously, your NGL to crude ratio being down to 42% versus 67% last year must have had some negative impact on your -- the accrued hedges that you have in place. So, is there any way to quantify what kind of impact you get from NGLs to quick ratio getting this low?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Yes, Helen, this is Rose. Yes, if you look at our quarter-over-quarter numbers, the commodity price impact, using our sensitivities that we've provided, is roughly $8 million on a quarter-over-quarter basis. So that's largely reflective of the NGLs and crude relationship being softer.

Helen Ryoo - *Barclays Capital - Analyst*

Okay. And when you do your crude hedges, when you put in the crude hedges in place, roughly what kind of NGL to crude ratio do you assume to make the hedges perfect? Is it more like a 60% NGL to crude?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Yes. Somewhere in the 50% range.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. And then just last question, any impact from Hurricane Sandy on your wholesale propane business? I know that's more in the Northeast, but could you comment?

Bill Waldheim - *DCP Midstream Partners, LP - President*

Helen, this is Bill Waldheim. No, actually, we were very fortunate with assets that were along the Eastern Seaboard. We experienced very little impact whatsoever. And actually, the assets were back up in operation within a day or two of the storm. So, we were very fortunate in that regard.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. Thank you very much.

Operator

Elvira Scotto, RBC Capital Markets.

Elvira Scotto - *RBC Capital Markets - Analyst*

The Goliad project that you mentioned, is that being contemplated on the DPM level or the DCP parents level?

Mark Borer - *DCP Midstream Partners, LP - CEO*

The joint venture that we have formed with Midstream, or DCP Midstream, will execute on that project. So the partnership, assuming that is approved by the Boards, the partnership would have a one-third interest in the development of that project.

Elvira Scotto - *RBC Capital Markets - Analyst*

And would that have a similar hedge then attached to it as well?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes, it is anticipated that it would have a hedge along with it as well.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. So in 2012 so far, you've exceeded the co-investment target. Now is that -- so have you just brought forward your co-investments? Or are we going to see that co-investment number grow versus the original target? And then especially since now the drop-down of Sand Hills and Southern Hills is really only a one-third interest versus a full interest before -- so how do we think about the total co-investments?

Mark Borer - *DCP Midstream Partners, LP - CEO*

You are correct in that we exceeded the co-investment target for 2012. We were 300 million ahead of plan. As you well know, growth can be somewhat lumpy. And I guess the way we would look at it at this point in time is that we're well on our way to meeting our three-year forecast of having 3 billion of overall growth, including the co-investment capital that we've previously outlined.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. And then just going forward then, since now you're only investing in a one-third interest in Sand Hills and Southern Hills, how should we think about the percent of the business that's going to be fee-based looking forward?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Sure. The way we -- as you know, we previously provided a range of 65% to 80% as an outlook for 2015. Since we provided that outlook, we've closed on the Mont Belvieu fractionators. We've added East Texas Crossroads transaction, which is predominantly fee-based; we've invested in Texas Express, which is fee-based. We'll have the Eagle plant coming up. The Keathley Canyon expansion is very fee-based.

So when you take all that into account, and then you add into that the current transaction in the Eagle Ford, we're still comfortable with that range. That's something that we'll continue to refine over time, as we outline kind of our annual business plans. So we will provide an update of our outlook for 2013 during our call early next year. But at this point, we're comfortable with that range, and we'll adjust accordingly if it's necessary.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, so then just a clarification on this drop-down announced today, I mean, should we think of it as fee-based or as hedged?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Well, from a margin driver viewpoint, we do have commodity length underpinning that. And so, the fact that we have a direct commodity hedge obviously makes it more fee-like. But just to be clear, when we talk about fee-based margins and such, and when we have a direct commodity hedge, we don't put that in fee-based margins. Obviously, from the viewpoint of the investor and such, there's a lot of security around having that commodity hedge that provides very safe stable cash flows.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, got you. Thanks a lot.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thank you.

Operator

Michael Blum, Wells Fargo.

Michael Blum - *Wells Fargo Securities - Analyst*

My questions have been addressed. Thank you.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thanks, Michael.

Operator

Becca Followill, US Capital Advisors.

Becca Followill - *US Capital Advisors - Analyst*

On Goliad, is that already permitted?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes, we have -- we're substantially permitted. We have all the major permits there. So, we've been very well out in front of that, Becca.

Becca Followill - *US Capital Advisors - Analyst*

Great. Thank you. And then can you go back and, in time, historically, when you've dropped down assets and the hedge has been taken over at the DCP LLC level, so that you guys are effectively fee-based on these commodity sensitive assets, what happens at the end of that three-year period, where you have the contract to or were you -- were they offset your position?

Mark Borer - *DCP Midstream Partners, LP - CEO*

So the hedges will have a defined specific period as outlined in the transaction. And then what we do is we assimilate that hedge into our portfolio at the partnership, and then we will opportunistically layer on hedges periodically to continue to extend that portfolio out. We've had a pretty good history of doing that in the past, Becca.

Becca Followill - *US Capital Advisors - Analyst*

So after the three-year period, then you to take on the commodity sensitivity, but then you hedge it out at your level?

Mark Borer - *DCP Midstream Partners, LP - CEO*

That's correct.

Becca Followill - *US Capital Advisors - Analyst*

Okay. Thank you. And then (multiple speakers) --

Mark Borer - *DCP Midstream Partners, LP - CEO*

(multiple speakers) And we may add hedges as an example, and we may be 18 months out and we may begin adding hedges, or 18 months beyond that, as an example.

Becca Followill - *US Capital Advisors - Analyst*

Thanks. And then the last question is, on the Eagle Ford JV, is the intent to consider dropping down the remaining two-thirds of our time? Or is the intent for it to continue to be a JV?

Mark Borer - *DCP Midstream Partners, LP - CEO*

We have no commitment from Midstream that we would drop-down additional interest. Obviously, we have a pretty advanced co-investment strategy with them, so there's not a commitment within the transaction. Clearly, we've had a history of joint ventures with Midstream where we continue to acquire additional interest over time.

We've done that with East Texas, initially starting out with 25%, and now have 100% ownership. And we started out in Southeast Texas with -- I guess we were a one-third ownership and we now own 100% of it as well. So we do have a track record of moving down the road further on these joint ventures from an acquisition viewpoint and drop-down.

Becca Followill - *US Capital Advisors - Analyst*

But this is a mature enough asset where it's not as if there's a huge amount of growth capital that would need to incur, so it would make it more amenable to a sooner drop-down. Is that fair?

Mark Borer - *DCP Midstream Partners, LP - CEO*

It is an asset that's immediately accretive. We do believe it has some very attractive organic growth, but it's not one which is -- there are assets out there from time to time that have no cash flow, since they're in a development stage. This is clearly an asset that has attractive cash flows.

Becca Followill - *US Capital Advisors - Analyst*

Great. Thank you, guys.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thank you, Becca.

Operator

Selman Akyol, Stifel Nicolaus.

Selman Akyol - *Stifel Nicolaus - Analyst*

Thank you. All of my questions have been answered.

Mark Borer - *DCP Midstream Partners, LP - CEO*

Thank you, Selman.

Operator

Lin Shen, HITE.

Matt Niblack - *HITE - Analyst*

Hi, this is actually Matt Niblack from HITE. Congratulations on the good quarter and the exciting drop-down here. Just -- you've given the willingness of your general partner to take equity back in these transactions. Did you expect the need to come to the public markets for equity at any time the balance of the year, or even in the future, in general, given this new model?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Matt, this is Rose. Certainly, we can't -- cannot discuss the signing of our capital market plans. But what I can say is, first of all, we are committed to our investment-grade metrics. And second of all, we have demonstrated ability to access both the debt and the equity capital markets.

Matt Niblack - *HITE - Analyst*

Okay. So the -- you would say that, in general, the willingness of the general partner to take equity to at least finance these transactions, does not eliminate the need for, call it, more routine access of the public equity markets?

Rose Robeson - *DCP Midstream Partners, LP - CFO*

Yes. Historically, on these drop-downs, LLC has taken back roughly 20% of equity in these drop-down transactions. And so, certainly, as we continue to grow the partnership, we would look at our capital needs in terms of keeping our investment-grade metrics. And again, we have certainly seen good access in both the debt and equity capital markets.

Matt Niblack - *HITE - Analyst*

Great, thank you.

Operator

We have no further questions at this time. Do you have any closing remarks?

Mark Borer - *DCP Midstream Partners, LP - CEO*

Yes, this is Mark. I'd like to thank you all again for your interest in DPM. If you have follow-up questions over the coming days, please feel free to contact Johnny, and we can make ourselves available to visit. Thanks and have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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