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DPM - Q4 2012 DCP Midstream Partners, LP Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 28, 2013 / 1:00PM GMT

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PRESENTATION

Operator

Welcome to the DCP Midstream Partners fourth quarter 2012 earnings conference call. My name is Dawn, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later we'll conduct a question and answer session. Please note that this conference is being recorded.

I will now turn the call over to Jonni Anwar. You may begin.

Jonni Anwar - *DCP Midstream Partners, LP - IR*

Thank you, Dawn. Good morning and welcome to the DCP Midstream Partners fourth quarter and year end 2012 earnings call. As always, we want to thank you for your interest in the Partnership. This call is being webcast, and theslides 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] -- our forward-looking statements and lists the factors that may affect our results. For a complete listing of the risk factors that may impact our business results, please review or most recent Form 10-K filed yesterday with the SEC. During our discussion, we'll use various non-GAAP measures, which are reconciled to the nearest GAAP measure and schedule in the appendix section of the earnings slides.

We announced last night the launch of a public equity offering. We will not be commenting on the offering and will not be answering any questions regarding the offering on this call.

And now let me turn it over to our first speaker, Bill Waldheim, President of DPM.

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

Thanks, Jonni. Good morning, everyone, and thanks for joining us today for a discussion of DPM's fourth quarter and year end results. I'm also joined this morning by Rose Robeson, our CFO.

As you saw in our press release last evening, we recorded record adjusted EBITDA and record distributable cash flow in 2012. Despite commodity headwinds, we also delivered on our 2012 distribution growth target.

In addition to our strong financial performance, we also announced another significant dropdown in the Eagle Ford. With the dropdown of this additional interest in the Eagle Ford joint venture, we'll have 80% interest one of the largest gathering and processing systems in the prolific Eagle Ford shale play, with 1.2 Bcf per day of total processing capacity. This $626 million transaction represents the largest dropdown in the history of the Partnership and a continuation of our transformational growth as well as a demonstration of DCP's incredible support and commitment to grow DPM.

This transaction is expected to close in March. In addition to our immediately accretive Eagle Ford dropdown, we also announced two strategic organic growth projects, which I'll discuss further shortly.

2012 was a year of significant and sustainable growth for DPM, and despite a challenged commodity price market, we generated record distributable cash flow of $180 million in 2012. We raised our distribution for the ninth consecutive quarter, representing a 1.5% sequential quarter increase a 6% year-over-year increase, also in line with our forecast. This increase reflects our continued confidence in sustainable future cash flows from our visible growth. With our announced and planned dropdowns and organic growth, we are targeting distribution growth of 6% to 8% in 2013 and 6% to 10% in 2014.

With that, let me briefly touch on each business segment and associated growth projects. Starting with our Natural Gas Services segment, this areas continues growth with the announcement yesterday of our immediately accretive dropdown in the Eagle Ford joint venture, bringing DPM's total ownership in this area to 80%.

Also, we're increasing our ownership in the previously announced 200 million a day Goliad Plant to 80%. As we consolidate this acquisition in DPM, the Eagle Ford area will account for a substantial percentage of our natural gas services and will continue to be a major source of growth in the coming years. I will provide more details on this dropdown in a moment.

The other organic -- major organic is our Keathley Canyon pipeline at our discovery joint venture. This project is progressing nicely. All permits have been secured, the pipe is arriving, stacked and ready, and the ship to [label] line is arriving next month. William is operator of discovery and is managing the construction of this project, with an expected in-service date of mid-2014.

In our NGL Logistics segment, we also have excited growth projects. As you saw in our press release last night, we announced a long-term methane storage agreement with Nova Chemical, unpinning the expansion of Marysville NGL storage facility. Our investment in this project is about $25 million and includes new ethane storage capacity of approximately 1 million barrels.

This expansion will serve the growing needs for NGL product supply storage for the Utica and Marcellus producers. This project is expected to be in service of Q4 of 2013.

And lastly, our 10% interest in Texas Express is nearing completion and is expected to be in service in the third quarter of this year. Looking forward, we expect our NGL Logistics segment to continue to have significant growth in the next couple of years, with a targeted dropdown of a one-third interest in the Southern Hills and Sand Hills pipelines from our general partner.

In our Wholesale Propane segment I'm excited to report we success any exported 6 million gallons of propane out of our Chesapeake terminal in January. Further work is required to export purity products on an ongoing basis. However, we're encouraged by the commercial results and will continue to explore this opportunity.

So let me give you more details on our Eagle Ford dropdown. Yesterday we signed and agreement with DCP Midstream for the immediately accretive dropdown of an additional 47% in the Eagle Ford joint venture for $626 million. DCP Midstream is expected to take 20% of the consideration for this dropdown in DPM units.

Many of you are familiar or have all ready heard of the Eagle Ford shale play. It's one of the hottest plays -- shale plays in the country, with E&P companies spending billions of dollars chasing this liquids rich formation. Currently there are 225 rigs running in this play, with gas production approaching 3 Bcf per day. We are extremely pleased with DPM's growth in this area, our returns to date, and we expect this trend to continue.

DPM's Eagle Ford venture is a fully integrated midstream business, which includes approximately 6,000 miles of natural gas pipelines, five natural gas processing plants totaling 760 million a day of processing capacity, three fractionators with 360,000 barrels a day of capacity, and favorable access to inter- and intra-state gas markets. With the additional build out of the two new plants, Goliad and our wholly owned Eagle Plant, the total processing capacity will be 1.2 Bcf per day.

In conjunction with the transaction, DCP Midstream will provide Partnership with a direct commodity price hedge for a three year period, similar to the previous Eagle Ford joint venture transaction, as well as a direct commodity price hedge on the Goliad Plant volume. This transaction, which provides an immediately accretive cash flows, is expected to close at the end of March. This is another great example of how we work with our general partner to fund DCP enterprise growth.

Turning to the next slide, let's look at our growth forecast. Please note our capital for 2012 as well as our forecast capital is now based on the timing of our cash spend. For 2013 we are targeting about $1 billion of dropdown opportunities with our general partner, which includes the just announced Eagle Ford joint interest dropdown. In addition, we are going -- we have ongoing organic growth of another $500 million, which includes our investment in the Goliad Plant and Keathley Canyon expansion project.

In 2014 we would expect another $1 billion of dropdown opportunities, subject to the approval of both the DCP Midstream and partners' Boards, this would include the expected dropdown of DCP Midstream's one-third interest in Southern Hills and Sand Hills pipeline to DPM. Also shown on this slide are the in-service dates for the various organic growth projects. The EBITDA from dropdowns in organic growth will support distribution growth targets of 6% to 8% in 2013 and 6% to 10% in 2014.

With that, I'll turn to over to Rose to review the financial results.

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

Thanks, Bill, and thank you for joining us today. Let me now take you through the numbers.

For the fourth quarter our adjusted EBITDA was up over 70% versus last year. Adjusted EBITDA was $86 million for the fourth quarter of 2012, versus $50 million in fourth quarter of last year. Each of our segments were up quarter-over-quarter, and I will review the details in the next few slides. For the full year our adjusted EBITDA was up over -- was over $250 million, which is a pretty big milestone for our Company.

Fourth quarter distributable cash flow was $68 million, providing a 1.3 times cash distribution coverage ratio for the quarter. For the year, distributable cash flow was $180 million, providing a one times cash distribution coverage for 2012.

If you turn to the next slide, let me now talk about our Natural Gas Services segment. Our adjusted EBITDA was about 35% -- was up about 35% at $51 million compared to last year's fourth quarter of $38 million. Our growth from dropdown more than offset the impact of commodity prices and lower volumes at East Texas due primarily to a planned turnaround.

Our hedging program continues to provide significant stability in our Natural Gas Services segment. I will discuss our updated hedge percentages later in the slide deck. Our volumes are also up significantly year-over-year due to our dropdowns of East Texas, Southeast Texas and Eagle Ford, as well as the Crossroads acquisition in East Texas.

Turning to our NGL Logistics segment, we doubled our fourth quarter adjusted EBITDA fromlast year to $20 million. This increase is due to the down of the Mont Belvieu fract, as well as higher volumes on our existing assets. We are excited about the continued growth prospects around our pipeline, fractionation and storage assets. Our announcement Marysville storage expansion project is another nice fee-based organic growth project for this segment.

If you turn to slide ten, in Wholesale Propane we more than doubled our fourth quarter adjusted EBITDA from 2011 to $27 million. As expected, Wholesale Propane had a record quarter due to the substantial recovery of the lower cost [to] market adjusted taken in the second quarter. Even factoring out the LCM recovery, wholesale propane was up due to higher per unit margins, partially offset by lower volumes.

Volumes were down versus last year due to the significant inventory build coming out of last year's record warm winter. I'm happy to say this business is performing nicely this winter, with more normal weather and healthy per unit margins. As a reminder, this business does have seasonality, with a majority of earnings coming during the fourth and first quarters.

So if you turn to slide 11, our actual DCF results for 2012 were in line with our forecast. The 2012 average crude oil price of $95 and NGL to crude relationship in the mid 40's for the year placed us in the forecast range of about $165 million to $180 million as highlighted in the chart. Our actual DCF for the year $180 million, which would be at the top of the range.

We also delivered on a distribution growth forecast we provided this time last year, with actual distribution growth for the year of 6%, within our forecast range. Our coverage is running lower than our target range of 1.1 to 1.2, reflecting the financing [lead] time impact of our ongoing organic growth projects, including the Eagle Plant and Keathley Canyon. We expect to be back within our target range as our organic growth projects begin to come online.

So if we turn to the next slide, let me now walk through our DCF and distribution growth targets. Our 2013 distributable cash flow forecast is provided in the context of various commodity price scenarios. Based on current commodity price forecast and our current NGL barrel composition for 2013, the table would indicate DCF between $260 million and $280 million, which represents a 45% to 55% increase over 2012.

Our forecast includes the impact of the announced Eagle Ford dropdown and our [in flight] approved organic growth projects. We are also assuming maintenance capital of about $30 million to $35 million in 2013. And consistent with our past practice, our DCF forecast excludes the impact of potential future acquisitions or dropdowns, or any announced organic expansion projects.

So the dropdowns and other growth completed in 2012 and organic projects that come online in 2013 and 2014 are supporting our sustained distribution growth target. As Bill mentioned earlier, we are targeting distribution growth of 6% to 8% in 2013 and 6% to 10% in 2014. We believe we can achieve these targets through our existing asset base as well as identified and targeted dropdowns in organic growth over this period.

Slide 13 outlines our financial position at the end of 2012. We are committed to a financing strategy that maintains a strong capital structure, a competitive cost of capital, and significant liquidity to enable us to execute our growth strategy. At the end of the year, our average cost to debt was about 3%, and we had about $475 million in unutilized revolver capacity.

Our debt to EBITDA ratio was 4.2 times. Although our leverage is slightly above our target range of three to four times, we are committed to maintain our rating. We continue believe that DPM is in a great position to serve an attractive funding source for the sizeable growth project for the DCP Midstream enterprise.

Slide 14 shows our updated sensitivities as well as our breakdown of fee and commodity sensitive margins for 2013. Please note these sensitivities do not include the additional 47% of Eagle Ford. In 2013 about 90% of our margin is either fee-based or hedge, and of the hedged NGL exposure, almost 60% is hedged with direct commodity price hedges. When including our natural gas and condensate hedges, over 75% of our 2013 hedges are direct product hedges.

Our sensitivities for 2013 are also included on this slide. Our exposure to natural gas is very small. A $0.10 change as the $200,000 impact. Our crude sensitivity is for $1 per barrel change, a $0.5 million impact. And finally for a 1% in our NGL to crude relationship, the impact is about $2 million. This sensitivity is based on a 45% NGL to crude relationship. So as you can see, we have fairly limited exposure to commodity prices in 2013.

So I'll now turn it back to you, Bill, for some summary remarks.

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

Thanks, Rose. I'd like to close with the next slide, which illustrates our financial results over the past three years. We have had a 30% compounded annual growth rate in both our adjusted EBITDA and distributable cash flow over this period. This year alone, we had record growth, record adjusted EBITDA and record distributable cash flow.

Executing on our growth strategy in conjunction with our stable cash flow has underpinned this impressive growth. Our goal is to have sustainable distribution growth, and I'm happy to report that we've had nine consecutive quarterly distribution increases. Despite commodity headwinds, we delivered on our 2012 business plan, and we are well on our way to accomplishing our growth targets for 2013.

And finally, we couldn't be more pleased with DPM's newly acquired position in Eagle Ford, given this area's prolific growth and organic capital opportunities. The visible growth opportunities currently in our pipeline put us on our way to be becoming a large scale, fully integrated midstream service provider. And having the strong sponsorship from our general partner, DCP Midstream, and its owners, Phillips 66 and Spectra Energy, we're competitively positions to succeed.

So with that, I want to thank you for your interest in the Partnership, and I will turn it back to our operator, Dawn, for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes Elvira Scotto from RBC Capital Markets. Please go ahead.

Elvira Scotto - *RBC Capital Markets - Analyst*

Hi, good morning. Question on the dropdown. Last quarter you had indicated -- or you talked about acquiring the 33% of this Eagle Ford -- these Eagle Ford assets, and at that time you had indicated it was around a seven to nine times 2013 EBITDA multiple, then you gave some color around the hedges that you had put in place. This acquisition of this incremental 47%, is that consistent with what you did with the first portion of the dropdown?

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

Elvira, this is Bill. Yes, the 47% interest dropdown is consistent with the first one-third interest, and the hedges themselves are at the same price levels that we did at that one-third interest. So everything that we did several months ago is consistent with this particular dropdown.

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

Elvira, just in terms of the multiple, the seven to nine X, I think that -- you can think about this dropdown in those terms as well.

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

Yes.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great. I want to make sure I understand how the hedges work. These are direct commodity hedges. Are they perfected, meaning that is essentially -- becomes almost a fee-based asset for the next three years?

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

Yes. These are perfected hedges, direct commodity price hedges. So the ethane, the propane, every individual project is hedged per the forecasted equity product that we would have in these assets.

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

So I think you should think about it more in terms of fee-based.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. And then just going -- looking out into 2015, I think historically you had said actual fee-based margins would be around, I believe, 65% to 80%. Is that -- does that still hold?

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

Elvira, as we look forward, we've had a number of dropdowns and fee-based opportunities with the Partnership. For instance, the Keathley Canyon project in 2014 is predominantly fee-based. The fractionators that we dropped last year are fee-based. And actually as we look forward, the pipeline would be fee-based as well.

So in total it's difficult to pinpoint where we would be on fee versus commodity, but we would like to think of it as -- currently we're 55% fee-based, and we would expect that to possibly be increasing. But when you include that with the perfected hedges, we're 90% hedged or fee-based at the Partnership as we sit here today.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. And then one other question. Given the commodity price environment, NGLs and particularly ethane, ifwe're in a period of sustained ethane rejection -- a prolonged ethane rejection, and ethane prices stay low, does that have any impact on your outlook as you provided it today?

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

I'd give you the answer several ways. I would say generally not. The ethane environment is going to be over-supplied we would think in the next several years, but I think the ethane rejection that you're hearing about is really -- and I think we talked about this before -- it's really the ethane that's being rejected in the disadvantaged areas, which is Wyoming, the Bakken and those types of areas.

And if you look at where DPM's assets reside, they're generally predominantly in the Gulf Coast, West Texas and East Texas. So the -- our transportation costs and T&F into the Monte Belvieu markets are fairly good when compared to the other areas. SoI would generally say that we won't be affected, necessarily, by ethane rejection.

And I'd just remind everybody that the ethane component of the barrel is only about 10% of its value. We really are looking for a recovery in the price of propane with these export terminals that will be starting as we speak. And actually this summer, with increased propane exports,we would expect propane to begin to move to higher levels, which actually should help the price of ethane as well. But I don't think it has a material impact on earnings this year and looking forward.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great, thanks a lot.

Operator

Thank you. Our next question comes from Michael Blum from Wells Fargo. Please go ahead.

Michael Dlum - *Wells Fargo Securities, LLC - Analyst*

Hi, good morning, everybody.

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

Good morning.

Michael Dlum - *Wells Fargo Securities, LLC - Analyst*

Couple of questions for me. One, can you just talk about the -- I guess, your decision to narrow your distribution growth target for 2013 from what I believe before was 6% to 10% and now you're saying 6% to 8%? Exactly what's going on there?

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

Sure, Michael. That -- we'd be happy to talk about that. Certainly in 2013 we have a better line of sight with our current projections for the year. I'd also like to remind, with the Eagle Ford dropdown, we do have organic projects that are now being funded by the Partnership. And so as we look at 2013, we're comfortable with the 6% to 8% guidance. That is still in our opinion within the guidance that we previously had given, so we're comfortable with that guidance.

I think generally speaking, our goal is to have sustained, long-term distribution growth, and I think at this level we certainly can achieve that. Our next -- 2014, we still are guiding 6% to 10%. We have good organic growth projects that will be coming online, and so we'll keep that guidance as it is.

Michael Dlum - *Wells Fargo Securities, LLC - Analyst*

Okay. And then thinking about 2014 distribution guidance and the pretty big uptick in organic capital you're spending in 2013, do you think that could play out that you'd be able to perhaps hit towards the higher end of that range in 2014?

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

Michael, I'd like to think of it this way. We are also managing the coverage of our distribution, and I think our coverage target is 1.1 to 1.2. With the organic growth projects that coming online, we believe that we'll have improved distributable cash flow from the generation of earnings from those projects, but we'll also be managing our coverage accordingly. So whether in the mid to upper range, I think we'll be within that range and within the targets for our investment for the rating agencies as well.

Michael Dlum - *Wells Fargo Securities, LLC - Analyst*

Okay. And then the last question for me. Of the $500 million in organic capital, I think on slide six you lay out the various pieces of where that capital is being spent, and obviously the $230 million is for the Goliad Plant. ButI was wondering if you could delineate the rest of that $270 million, how it's being spent among the various projects?

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

I'll let Rose take that question.

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

Yes, Michael, the largest single project in that -- in the balance is the Keathley Canyon project, and overall that project in total is around $300 million. And the majority of the spend will occur in 2013, and some of it will come into 2014 as well.

Michael Dlum - *Wells Fargo Securities, LLC - Analyst*

Great. Thank you very much, everybody.

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

Thank you.

Operator

Thank you. Our next question comes from Brett Reilly from Credit Suisse. Please go ahead.

Brett Reilly - *Credit Suisse - Analyst*

Good morning, everybody.

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

Good morning.

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

Good morning.

Brett Reilly - *Credit Suisse - Analyst*

Could we get a little bit more color on some of our assumptions for distribution coverage in the context of your commodity price outlook and distribution growth outlook for this year?

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

Sure. Our distribution coverage is predicated upon a $90 crude oil price and about a mid-40% NGL to crude relationship.

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

Yes, and Brett, in terms of our distribution coverage, as we sit here today on a trailing 12, it's about one time. And with our forecast for 2013, we think we will be -- and as the organic -- of course the Eagle Plant is coming online. It's actually in start-up mode. And as Keathley Canyon comes online, certainly we expect to be back in the 1.1 to 1.2 range.

Brett Reilly - *Credit Suisse - Analyst*

Okay. So for the full-year, based on your assumptions as it stands today, at a minimum you think it will be about 1.1?

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

By the end of 2013 we would be kind of in that zip code.

Brett Reilly - *Credit Suisse - Analyst*

Okay. Then you mentioned the 40% NGL -- or 45% NGL assumption is based upon the composition of your barrel. Could you just give us a little color as to what you're expecting just for the overall barrel across the DCP portfolio?

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

Sure, I can do that. The change from last year to this year, our composition has become a little bit lighter, with the more modern cryogenic facilities that are now in the Partnership from the Eagle Ford dropdown. So the composition has gotten a little lighter. I'd just say the ethane composition is between 45% and 50% of the total barrel. In that range.

Brett Reilly - *Credit Suisse - Analyst*

Okay. So, [a minimum], it would appear that you guys aren't really, I guess, forecasting much ethane rejection across your plants for the year, as you mentioned with Elvira earlier?

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

As I mentioned, our plants are generally in the Southern markets and very close to the Mont Belvieu hub, so at this juncture we wouldn't planning to do -- having a lot of ethane rejection at our facilities.

Brett Reilly - *Credit Suisse - Analyst*

Okay, thanks. I guess the last one is, on the Keathley Canyon projects you mentioned $300 million total spend there. Is that for the entire project, or just for your interest in the project?

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

That would be for our interest in the project.

Brett Reilly - *Credit Suisse - Analyst*

Okay. That's all for me. Thank you.

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

Thanks, Brett.

Operator

Thank you. Our next question comes from Rebecca Followill from US Capital Advisors. Please go ahead.

Becca Followill - *US Capital Advisors - Analyst*

Good morning, guys. You mentioned the export terminal at Chesapeake as testing exports of propane. Can you talk about what needs to happen in order to get the purity product and really have the meaningfully export propane, and how big that could be?

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

Sure, I can address that. The Chesapeake terminal is a deepwater port terminal, so it is well-suited for export capability. What would need to happen is just expanding some of the rail [siding] so we could bring more product into the facility. And some engineering is currently underway to work the refrigeration of the product, so when it is in the tank, it is then able to be exported through and on to the ships.

And so that work is ongoing, and we would hope -- that facility is a two-tank facility, and so we would be able to probably handle both propane and butane through that facility if this project moves forward.

Becca Followill - *US Capital Advisors - Analyst*

And the magnitude of the exports?

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

Well, that's a little difficult to say. It would obviously depend on the ability to unload rail cars and those types of things. We're still working those dynamics, and so -- and it's also maybe seasonal, so again, a number of factors go into answering that question, which I don't think I'm quite prepared to answer at this point.

Becca Followill - *US Capital Advisors - Analyst*

Okay, thank you. And then on your Eagle Ford plants, can you talk about the current capacity utilization is of the plants that are online, the roughly 800 million a day? And then the expected ramp-up of Eagle and Goliad over the next three to five years?

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

Sure, I'll be able to handle that as well. The Eagle Ford system, as we sit here today, is generally completely full, with possibly the exception of our LaGloria Plant, which that's the only plant in the fleet that we didn't modified to handle the richer Eagle Ford shale gas. But even that plant is running at a fair high level of utilization. So generally speaking, we're full today.

The Eagle Plant is currently in start-up mode. It's mechanically complete. They're actually, as we're talking, they're drying out the plant and hoping to introduce gas into facility this weekend. So we're very excited about that plant start-up. And we would expect that plant to have a ramp-up period, but certainly in 2013, we would like to see the plant be substantially full by the end of the year.

The LaGloria Plant is -- or I'm sorry, the Goliad Plant is also under construction and for a first quarter start-up for next year. And we have additional contracts and extensions of existing contracts that supports that facility. So contractually we feel very good about the producers and the support behind that plant. So generally speaking, everything that we see in the Eagle Ford has really been on plan as far as volumes and the growth targets that we've had laid out for these projects.

Becca Followill - *US Capital Advisors - Analyst*

So that ramps up to full capacity by the end of 2014?

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

I just say the Goliad Plant, because it's the last plant coming on, I think we targeted a several year ramp-up in volumes at that facility. So it would take a little bit longer, being the newest one online, but I think the Eagle Plant would be full relatively quick.

Becca Followill - *US Capital Advisors - Analyst*

And the last question is on the hedges that DCP is going do for you guys for the 27 month period for Goliad. Are those similar to the ones for the 80% in the Eagle investment?

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

Yes, they are the same.

Becca Followill - *US Capital Advisors - Analyst*

Great. Thank you, guys.

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

Thank you.

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

Thank you.

Operator

Thank you. Our next question comes from Helen Ryoofrom Barclays. Please go ahead.

Helen Ryoo - *Barclays Capital - Analyst*

Thank you. Good morning. Just starting with some questions on the Sand Hills and Southern Hills pipeline. I think, Bill, did you say that you're targeting for a 2014 dropdown on these assets? And also, could you provide a contracting update? How much contracting has taken place, and also the third party contract versus the parent contract on that, roughly -- rough breakdown?

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

Sure. I think you're correct, we did say that the targeted dropdown potentially is in the 2014 timeframe. We would like those assets to be up and running and generating earnings before they come to the Partnership, because that would obviously be better for the Partnership that they've got cash flow and earnings.

But relative to the facilities themselves and the contracting, I think -- nothing has really changed as far as the percents of contracting. I think we've always said between 50% and 70% is really DCP volume, and the other percentage would be third party contracted. I would say we continue to add contracts to -- and volumes to the system as other third parties and even as we announce new plans such as our Rawhide Plant in West Texas. And those types of projects, as they are announced, those volumes would be targeted for Sand Hills pipeline.

But the volume ramp-up we have said has been over a two, three years period. I don't think that's changed much. We are optimistic that we're pulling some of those volumes forward and are seeing good visibility. That ramp-up could be a little bit quicker, but I don't think we're too far off our original estimates of a several year ramp-up period for the pipelines.

Helen Ryoo - *Barclays Capital - Analyst*

And when you think about these contracts, are those mostly plant dedications, or do you have some take or pay type of contract mix?

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

We certainly have a combination, Helen. The take or pay contracts -- there are numerous take or pay contracts with these facilities. There are also plants that, frankly, were all ready operating. We can see their production levels, and so for facilities like that we were very happy with the 15 year type plant dedications to the systems. So it is a combination of T&Ds and plant dedications, but we're very comfortable with the mix and the ability to fill these systems.

Helen Ryoo - *Barclays Capital - Analyst*

And just related to the ethane rejection question that came along. I understand that given where your systems are located, probably you're not -- you may not be subject to a lot of these. But inthe scenario that there is a lot of, let's say, ethane rejection going on behind your Southern Hills plant, would that impact the cash flow on Southern Hills, or are you sufficiently protected with these take or pay contracts that you shouldn't really feel the effects?

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

I think we're sufficiently protected with take or pay contracts, and I'd also just mention that the transportation from these facilities are certainly better suited for continued ethane recovery versus the higher transportation rates of other areas. And so, again, as we look forward to the amount of rejection that might occur in the industry, we feel comfortable that the Midcontinent is going to be recovering ethane. And with a direct line to Mont Belvieu now and what we believe will be a higher valued market, we would expect the Midcontinent to generally be in ethane recovery.

But don't have -- we ourselves don't have -- DPM's plants aren't up there, but there are other producers that are in that area. But Southern Hills should be in good shape to be able to move product to the Gulf Coast.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, and then just switching over to, I guess, Eagle Ford. Could you remind me if there's any parent plants remaining the Eagle Ford shale at this point, or did you guys acquire all of the plants? I know there's still 20% interest on that JV, butare there any plants that are outside of the JV that belongs to the parent?

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

Helen, at this point the entire Eagle Ford and South Texas business is part of the joint venture, and the parent doesn't have any 100% owned facilities in this area.

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

And of course the Eagle Plant is 100% DPM owned.

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

That's correct.

Helen Ryoo - *Barclays Capital - Analyst*

Right. And if you were to put more plants in the Eagle Ford area, would it likely be your project, or would it be the parent project?

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

At this point, because the asset is 80% owned DPM, any future plants would really be a Partnership project, and the JV currently would fund and move forward go -- with any new projects. And should the JV ever become 100%, then it would be all of the Partnerships decisions to move forward with any additional facilities.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. Thank you very much.

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

Thank you.

Operator

Thank you. Our next question comes from Ross Payne from Wells Fargo. Please go ahead.

Ross Payne - *Wells Fargo Securities, LLC - Analyst*

How are you doing, guys?

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

Hey, Ross.

Ross Payne - *Wells Fargo Securities, LLC - Analyst*

Good morning. For Sand Hills and Southern Hills, that's obviously going to change the product mix -- I mean, asset mix pretty notably in 2014. Where do you see the pure fee-based going? You're 55% this year. Where do you see that go in 2014 with the addition of those two pipelines?

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

Ross, I would generally point to the -- that fee-based increasing. And the reason why I would say that is, even in the Eagle Ford dropdown we have a significant producer contract which is fee-based, and we do think generally speaking the industry is tending to move to more fee-based type processing agreements. And so certainly the Southern Hills and Sand Hills pipeline will be fee-based. Keathley Canyon is all -- or predominantly a fee-based asset, which will be in 2014 as well.

So we think the trend is certainly going to be higher fee-based earnings, and then just through general attrition and renegotiation of processing agreements, I would expect that trend to continue in an upward manner.

Ross Payne - *Wells Fargo Securities, LLC - Analyst*

Okay. And for Sand Hills and Southern Hills, can -- I know it's a several-year ramp-up, but perhaps by the end of 2014, any expectations on what percentage utilization you'll get on those two pipes?

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

I would love to speculate on that, Ross. Every indication is that we're going to be every -- on target with our projections. The producers that are behind our pipelines are all the large Permian producers, the Eagle Ford producers, and so there's nothing that we see that's not going prevent them from ramping up according to plan, if not maybe a little bit ahead of plan.

Ross Payne - *Wells Fargo Securities, LLC - Analyst*

Okay. And then finally, perhaps for Rose, any expectations on what your leverage number may look like at the end of 2013?

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

Well, Ross, as I indicated, our target range is three to four X on our debt to EBITDA, and we expect to be in that range. SoI think we're committed obviously to our investment grade rating.

Ross Payne - *Wells Fargo Securities, LLC - Analyst*

Super. All right, great. Thanks so much. That's it for me.

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

Thanks, Ross.

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

Thank you, Ross.

Operator

Thank you. We have Selman Akyol from Stifel Nicolaus on line. Please go ahead.

Selman Akyol - *Stifel Nicolaus - Analyst*

Thank you. Good morning.

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

Good morning.

Selman Akyol - *Stifel Nicolaus - Analyst*

Two quick questions for me. First of all, on the three year commodity hedge provided by Midstream for the Eagle Ford joint venture, at the end of the three years when that rolls off, do you anticipate the Partnership will retain the commodity hedge, or would they reenter into another agreement?

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

It's not expected that commodity hedge would go beyond the three year period, but I would like to point out that the Partnership has and will continue to have an ongoing hedging program. And so we open opportunistically look forward into the markets for chances to lock in the commodity prices out in the future. And so that continues to this day.

And so opportunistically as we the markets where we -- I think they're favorable to the Partnership, we'll lock in forward prices beyond that three year period. And we have some hedges out in that period as well, excluding the direct commodity price hedges. So that will be an ongoing program.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right, thanks. Then, just real quickly on Logistics. You guys talked about 1 million barrels coming online for ethane storage in the Utica Marcellus in the fourth quarter of this year. I was just curious, is that completely sold-out? Are you seeing overwhelming demand there? Is there anyway you can talk about that picture?

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

Sure. For the ethane cavern itself, that is a dedicated cavern under a long-term agreement with Nova, but there is certainly interest in and we are working other projects to potentially expand the capabilities on the other purity products of propane and butane. Marysville is well-suited and situated to really help the continued growth of purity products in this market, and there is demand.

We've been 100% subscribed on our storage in the past several years, and looking forward it appears that we'll continue to be 100% subscribed. So we're looking forward to possibly expanding the facility and continuing to serve the producers in the Marcellus and Utica area.

Selman Akyol - *Stifel Nicolaus - Analyst*

Thank you very much.

Operator

Thank you. That was our last question. I'll now turn it back to the presenter for closing comments.

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

Well, we'd just like to thank you again for your interest in the Partnership. We've had a great year, and we're looking forward to a productive 2013. And with that, we appreciate your interest.

Operator

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