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DPM - Q4 2013 DCP Midstream Partners, LP Earnings Conference Call

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PRESENTATION

Operator

Welcome to the DCP Midstream Partners' first fourth-quarter 2013 earnings call. My name is Christine and I will be the operator for today's call. At this time, all participants are in a 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. Andrea Attel. You may begin.

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

Thanks, Christine. Good morning, everyone, and welcome to the DCP Midstream Partners' fourth-quarter 2013 earnings 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 dcppartners.com.

I want to remind you that, in the course of our discussion today, and in the Q&A session, we may be making forward-looking statements. Please review the second slide in the deck, noting that our business is subject to a variety of risks and uncertainties that may impact our actual results. For a complete listing of these and other risk factors, please review the Partnership's most recently filed 10-K. Also during our discussion, we will use various non-GAAP measures, which are reconciled to the nearest GAAP measure in the schedule to the Appendix of the earnings slide.

Yesterday, we announced the launch of a public equity offering. We will not be commenting on the offering, and we will not be answering any questions regarding the offering. With that, I will turn the call over to DPM's Chairman and CEO, Wouter van Kempen.

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

Thanks, Andrea, and good morning, everyone. I am really pleased to be able to lend some introductory thoughts on our fourth-quarter and year-end results, results that we are very proud of, and to share our excitement on how well we are executing on our strategy. You have seen us evolve to a one-company, one-strategy view over the past few years. And our management structure has transitioned with that, which is very typical of sponsored MLP's.

So, today, we have Sean O'Brien joining us for the first time. And Sean is DPM's new CFO. Sean is also the CFO for DCP Midstream, our general partner. I'm pretty sure that Rose Robeson, our former CFO, is listening in on the call, cheering us on. And I want to express my appreciation for her contributions to the Partnership. And Rose, we all wish you the very, very best.

Before I hand over to Bill Waldheim, our President, I wanted to highlight a few things that we will be talking about on today's call. First, we just announced the largest dropdown in the Partnership's history, a $1.15 billion transaction that includes the one-third interest in Sand Hills and Southern Hills Pipelines, and the remaining 20% of our Eagle Ford business and the Lucerne 1 Plant in the DJ Basin. This immediately accretive transaction expands the scope of DPM's fee-based business. And with Sands and Southern Hills, we have now further diversified DPM's footprint into the rapidly expanding Permian Basin and the Granite Wash and SCOOP areas of the Midcontinent.

Secondly, we announced a new Lucerne 2 Plant, a $250 million organic growth project in the prolific DJ Basin. And lastly, we announced record results for the Partnership, for both the fourth quarter and 2013 as a whole. So, as you can see, we're out of the gates fast here in 2014, and executing on our growth-for-growth strategy to grow the Partnership and to help fund the ongoing capital needs for the DCP Enterprise. And this is a strategy that has served DPM very well, doubling our size over the past few years, and delivering long-term sustainable value to our unitholders.

So, with that, I'm really excited to hand it over to Bill and Sean. They will take you through our 2013 results and add some more detail on our just-announced transaction. So, with that, let me turn it over to Bill.

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

Thanks, Wouter. And thanks, everyone, for listening in today. We have got a lot of ground to cover with good news on many fronts, so let's get started. Last night we reported record results in both adjusted EBITDA and DCF for 2013, with DCF coming in at $296 million, or 64% above our 2012 DCF. We finished 2013 strong and it's carrying over into 2014. Our distribution now stands at $2.93 per unit annualized after making our 13th consecutive distribution increase.

While our record financial performance is great news on its own, the announcement of our latest transaction, the $1.15 billion immediately-appeared dropdown, and an exciting $250 million organic growth project underscores how we are continuing to bring quality assets into DPM. And as a sponsored MLP, DCP Midstream will take approximately 20% of the dropdown value in DPM units, further highlighting the strong support from our general partner. I would also like to highlight that in 2013, we dropped to over $1 billion of assets into the Partnership. And during 2013 through February of this year, we placed approximately $1 billion of growth projects into service. All these projects are now generating earnings and contributing to our 2014 guidance.

So before we dig into the transaction, let me touch on our 2014 guidance. For starters, as we shared at Spectra's Investor Day, we are accelerating our dropdowns to DPM in 2014, above our original $1 billion guidance. We are now targeting approximately $1.5 billion of dropdowns from DCP Midstream. We are also forecasting about $500 million of organic growth projects to be executed on during the year, for a total drop in growth forecast of about $2 billion.

Our 2014 distributable cash flow forecast is between $400 million and $420 million. All of this supports sustainable distribution growth. And with our recent distribution increase, we are targeting approximately 7% distribution growth in 2014, which is above last year's growth rate. As in past years, we have good line-of-sight into delivering on our plan, so we are confident we will continue to achieve our goals.

With that, let's talk about our announced transaction. First, the dropdown. At $1.15 billion, this dropdown, which is expected to close by the end of March, includes the one-third interest in the Sand and Southern Hills Pipelines. The remaining 20% interest in the Eagle Ford system, bringing our total ownership to 100%, and the Lucerne 1 plant in the DJ Basin. The drop assets just mentioned are immediately accretive, because the first 12-month multiple comes in at around 12x. In addition, low maintenance capital and line of sight growth will bring our acquisition multiple into the low end of the 7 to 9x range over the first several years, just like we have done with previous dropdowns.

These are predominantly fee-based assets underpinned by strong production profiles, with long shipper pay or minimum throughput commitments. The commodity since apportion of the remaining 20% of the Eagle Ford system has been incorporated into our hedge sensitivities. Our resulting sensitivities for 2014 are minimal, which we will discuss later in this call.

We are happy with our performance in the Eagle Ford, and excited to now own 100% of these assets. The $35 million a day Lucerne 1 Plant extends our position in the DJ Basin, and is another fee-based plant operating at capacity. We are really pleased to have acquired Sand and Southern Hills into the Partnership, as these pipelines are quality fee-based assets with a strong growth profile, both of which ramp up into 2016. To that point, Sand Hills access is the Eagle Ford shale, and is further diversifying DPM's footprint into the rapidly expanding Permian Basin. Our customers now have reliable takeaway and access to the Gulf Coast and Mont Belvieu markets. We are also encouraged by our volume ramp on Southern Hills, which extends our footprint into the Granite Wash and SCOOP areas of the Midcontinent, connecting it to Mont Belvieu.

And lastly, business development across both pipelines is incomplete. We are continuing to add laterals and extensions to tie into new supply sources, further ramping up volumes on these pipelines. We have identified over $200 million of opportunities to connect DCP Midstream and other third-party plants into these pipelines, which are not part of the base case. So, needless to say, we are excited about the future earnings potential of these pipelines.

In addition to this dropdown, we also just announced an organic growth project that is already under construction -- Lucerne 2, a 200 MMcf a day cryogenic gas processing plant in the DJ Basin. This $250 million investment includes construction work in progress, with $180 million of additional capital to complete construction through 2015 -- through mid-2015. Not only will Lucerne 2 be the largest plant in the DCP Enterprise's nine-plant DJ system; when it goes into service, DPM will now own about half of the DCP Enterprise's 800 MMcf a day of capacity in the DJ. That's a great position in a prolific growth area.

And remember, both Lucerne plants are anchored by long-term minimum throughput contracts from DCP Midstream. So, essentially, these projects are de-risked, and both plants will be connected to the Front Range Pipeline for NGL takeaway through Texas Express and delivered to the Mont Belvieu market.

The next slide shows our capital spend over the past couple of years, and our 2014 capital plan and distribution forecast. As you can see, over the 2014 to 2016 time horizon, we expect DPM to receive between $3 billion and $5 billion of dropdowns. This dropdown forecast is the result of continued significant growth opportunities at DCP Midstream, and it shows how our growth-for-growth strategy provides for continued drops into DPM.

So we have come up fast in 2014 with $1.5 billion of dropdowns to be completed -- $1.15 billion of dropdowns to be completed in the first quarter, and another $350 million of targeted dropdowns by the end of the year. We have executed and placed into service about $1 billion of growth projects during 2013 and into Q1 of this year. The projects include both our Eagle and Goliad Plants, the O'Connor plant startup and its expansion, Texas Express and Front Range Pipelines, the Marysville ethane project, and multiple other significant bolt-on projects around our footprint.

Looking forward, our 2014 organic forecast is about $500 million. About half of this capital is Keathley Canyon Pipeline and Lucerne 2 plant. The other half is comprised of numerous organic bolt-on projects.

So, as we look back, you can clearly see that the growth in dropdowns have materialized. Our operations are performing, and we are delivering on our plan as promised. We are targeting DCF in the $400 million to $420 million range, about a 50% increase from our 2013 target range. And with our recent distribution increase, we are targeting approximately 7% distribution growth in 2014. This guidance is inclusive of the just-announced dropdown, which will close by the end of March and begin contributing to our second-quarter results. Our goal remains constant -- provide sustainable distribution growth. As we fund our large organic growth program, we continue to balance our distribution growth against our coverage and leverage ratios.

Now, starting on slide 7, I will provide a brief operational update on our three business segments. Starting with our largest segment, Natural Gas Services, we continue to experience growth not only from the completion of the Eagle Ford and O'Connor dropdowns, but these assets are performing as, if not better than, expected. The O'Connor Plant came into service in the fourth quarter and filled up quickly to the initial 110 MMcf a day of capacity. And the additional expansion of 50 MMcf a day is in startup mode as we speak. The DJ is an exceptional growth area where we see volume growth and infrastructure needs, as E&P capital spending continues to increase in this prolific area.

Our Eagle Ford system continues to perform well, and the startup of the Goliad Plant could not have come at a better time, creating an additional 200 MMcf a day of capacity. On a side note, now that we have our Goliad Plant online, we immediately added over 50 MMcf a day of new gas to the system. So with the plant running close to 100 MMcf a day, we are already at 50% of capacity. And the Eagle Ford system overall is running at 75% to 85% of capacity. And with the dropdown of the remaining 20%, we will own 100% of the Eagle Ford, an integrated system of seven plants with 1.2 Bcf per day of processing capacity. The Eagle Ford is a prime example of how we are leveraging an acquisition with line-of-sight growth to achieve our target multiples of 7x to 9x.

As you see on slide 8, our NGL Logistics segment continues to show strong growth. Lines across our pipelines and fractionators continue to perform well, resulting in strong fee-based earnings. Also, with the startup of Texas Express and Front Range Pipelines, the associated ship-or-pay contracts are now active. And as we look ahead, our NGL Logistics segment will continue to have significant growth, as we ramp up our NGL pipelines and execute on the many bolt-on opportunities to connect the growth volume.

Turning to slide 9, the heating season of our wholesale propane segment is well underway. We are meeting the supply needs of our customers, and are comfortable that we will meet or exceed our 2014 business plan. Phase I of our Chesapeake Export Project to debottleneck product distribution into and out of facilities should be completed this quarter. This is the first of a two-phase project where Phase II will allow us to export butane from this facility. We recently completed a Memorandum of Understanding with a third-party associated with this project, and final agreements are being drawn up. I will be able to provide facility details in the coming weeks. We expect to be able to export butane in 2014.

And with that, I will turn it over to Sean to review our financial results on the next slide.

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

Thanks, Bill. And thanks to everyone for joining us today. I want to start off by saying that I am very excited to share the strong performance we have delivered at DPM in 2013, and our compelling outlook for 2014 and beyond. Looking back on 2013, it was a record year and we exited with strong momentum.

As a quick reminder, for GAAP accounting purposes, we show our prior-year results as if we owned the full 80% interest in the Eagle Ford during the fourth quarter of 2012, even though we only owned 33% in November and December. I will be referring to the quarter-over-quarter variances for the assets actually owned by the Partnership, as shown in the shaded box on this and the next slide. Year-over-year, our fourth-quarter adjusted EBITDA was up almost $18 million. And looking at our DCF, we had a record $79 million in the fourth quarter of 2013, up 16% from 2012, and a record year overall at $296 million, up 64% from 2012, exceeding the high-end of our 2013 DCF target range by $16 million.

Including the dropdown we just announced, we expect 2014 maintenance capital to come in at around $35 million to $45 million. And lastly, our cash distribution coverage for the full year was approximately 1.1 times. So, as you can see, DPM delivered strong results in 2013.

On slide 11, I will quickly highlight the key earnings drivers from each of our business segments. Natural Gas Services segment adjusted EBITDA increased $39 million compared to the prior year. These results reflect growth in the Eagle Ford dropdown, as well as the operation of our fee-based O'Connor Plant that started up at the end of October 2013. Our throughput volume increased about 7% and our NGL production increased 21%. We are seeing very strong volume growth in the Eagle Ford. We are also seeing a nice ramp-up in NGL production in the Eagle Ford and other areas, due to higher volumes and improving recoveries from what we saw just a year ago. These improvements are offsetting volume declines in certain of our lower-margin areas.

And as a reminder, our hedging program continues to provide earnings stability with very little exposure to commodity prices for this segment. And I will cover more detail around our hedges in a minute.

Our NGL Logistics segment adjusted EBITDA for the fourth-quarter 2013 of $19 million was relatively flat compared to the prior-year, with higher results from the Mont Belvieu fracks being offset by the write-off of a discontinued project. Overall, volumes are up in this segment, with the startup of Texas Express. And as Bill mentioned, looking forward, we expect to see strong growth in this segment with the announced dropdown of Sand and Southern Hills Pipelines, the startup of the Front Range Pipeline, and ramp-up of Texas Express.

Adjusted EBITDA in our Wholesale Propane segment was lower by $17 million for the quarter, primarily as a result of strong results in the fourth quarter of last year, which reflected a significant recovery of a non-cash lower of cost or market adjustment that was recorded earlier in 2012, and also higher unit margins that were realized due to favorable hedges on 2012 higher inventory levels. Absent those factors, our Q4 2013 results were in line with previous years, and we expect to end the winter heating season at or above our plan.

On slide 12, we show our 2014 sensitivities. With the recent fee-based assets coming into service, and with the announced dropdown of the Sand and Southern Hills Pipeline, our 2014 fee-based margin has increased to 55% from 50% in 2013. We have a multiyear hedging program where we manage our commodity sensitivities on a portfolio basis. So, in 2014, the remaining 45% commodity-sensitive market is about 90% hedged, with substantially all of the commodity exposures being hedged with direct commodity products. So our 2014 total margin continues to be about 95% fee-based or hedged.

For 2014, we are neutral to changes in natural gas and crude prices, and our sensitivity to NGL prices is about $700,000 impact for a $0.01 per gallon change, so we have very limited exposure to commodity prices in 2014. These exposures and sensitivities are inclusive of our dropdown announcement.

Slide 13 shows our capital market execution during the year and our financial position at the end of the quarter. We continue to maintain a strong capital structure and a competitive cost of capital. Our average cost of debt was 3.4% and we had approximately $665 million of capacity available under our revolver at the end of the year. We also launched a very successful commercial paper program for DPM in the fourth quarter, which has lowered our short-term borrowing cost. Our debt to EBITDA at the end of the quarter was 3.9 times. This is within our target range of 3 to 4 times, and we continue to target 1.1 to 1.2 times coverage. So we have strong investment-grade credit metrics, and are well-positioned to serve as a significant source of funding for growth capital for the DCP Enterprise.

With that, I will turn it back to Bill for some summary remarks.

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

Thanks, Sean. I would like to close this morning by leaving you with the following. 2013 was a fantastic year. We reported record Q4 and 2013 DCF and EBITDA. We have completed $1.5 billion of dropdowns and organic growth, and placed $1 billion of projects into service. And we delivered on our DCF, our distribution forecasts, and announced our 13th consecutive quarterly distribution increase, now at $2.93 annualized.

And although 2014 is still young, we have already placed our Goliad Plant and Front Range Pipeline into service during this quarter. Our 50 MMcf a day O'Connor Plant expansion is in startup mode, and in 2014, we expect to deploy $500 million on high-return organic growth projects. With the just-announced $1.15 billion dropdown, we are 80% of the way to our 2014 $1.5 billion dropdown forecast. We have more than doubled the size of DPM over the past several years. And with the potential for $3 billion to $5 billion of dropdowns coming to DPM between 2014 and 2016, along with our strong slate of organic projects, we could double it again.

And finally, we are targeting $400 million to $420 million of DCF and sustainable distribution growth, with a target, 2014 target, of approximately 7%. So we are confident that we will continue to deliver on our promises and provide long-term value to our investors.

So again, I would like to thank you for your interest in DPM. Wouter, Sean and I are now available to take your questions. And with that, I will turn it back to Christine, our operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Stephen Maresca, Morgan Stanley.

Stephen Maresca - *Morgan Stanley - Analyst*

Congrats on executing on the large drop. First question on that -- does that 7 to 9 multiple forward, the acquisition economics -- does that assume Sand and Southern are running at that full initial capacity? And then what causes the lower high-end of that multiple to happen? And when do you expect to get to that multiple?

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

Yes. Appreciate the question, Stephen. The package of assets will come in at a 12x, like we mentioned. The guidance that we would steer you towards on the Sand and Southern Hills systems are -- you know, we like to talk about it more on a DCF basis. And so, in 2014, our one-third interest might be around $50 million of DCF; in 2015, around $90 million; and in 2016, about $100 million. So there is a ramp associated with those pipelines. And so between the ramp that you see there, the Goliad Plant continuing to ramp up as well as the Keathley Canyon project coming online later in the year, that's where we get the ramp up over time. And again, very good organic growth projects, which, generally, we like to target in the mid-teen type returns.

Stephen Maresca - *Morgan Stanley - Analyst*

Okay. So 7 to 9, would you expect that to be more like a 2016 multiple on that, getting to that 7 -- 9 that you mentioned in the opening remarks?

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

I would just say over the first several years, we would drive it down to that level.

Stephen Maresca - *Morgan Stanley - Analyst*

Okay. And then what -- is there any cost or what is the cost, I should say, to expand Sand Hills in the future to [$350 million] from [$200 million] should you need to?

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

Yes. It's relatively inexpensive. The pump stations that we have in place can take the existing pipeline to 200,000 barrels a day. Each station, whether we add a pump to an existing site or create a new pump site, depending on hydraulics, might cost you about $15 million plus or minus. So it's very inexpensive and excellent return bolt-on type projects. And we are seeing a lot of activity in the Permian -- the growth that we mentioned, a couple-hundred-million-dollars of these types of bolt-on projects. We really do expect to be able to add capacity to the system and handle the volumes that we are looking at.

Stephen Maresca - *Morgan Stanley - Analyst*

Okay. And then on the financing side, I want to make sure I understand this. You are doing the $12.5 million offering now, but then DCP Mid, LLC, the parent, is taking an additional -- or is taking 20% consideration. So we are talking, adding those up, roughly $850 million of equity funding coming from these two, right now, so they are in addition to each other?

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

Stephen, as Andrea mentioned at the beginning of the call, on this particular call, we won't be commenting on the current financing.

Stephen Maresca - *Morgan Stanley - Analyst*

Okay. But are they separate issues? Like you are doing an offering, I understand you can't comment on that; but is DCP taking 20% consideration for this dropdown?

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

Yes, yes. As we noted in our script, the GP, DCP, is taking 20%, about $225 million in this particular transaction, once again showing GP's support.

Stephen Maresca - *Morgan Stanley - Analyst*

Got it. Okay, I just wanted to make sure I understood that. Okay, thanks, guys.

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

Sure. Thank you.

Operator

Harry Mateer, Barclays.

Harry Mateer - *Barclays Capital - Analyst*

Two for me, I guess. First, can you just maybe give some additional color and talk about how the wholesale propane business has been navigating the recent volatility in the propane market we have seen quarter-to-date? And then just on the financing but a different angle to it, can you just give us a sense for your debt financing expectations this year?

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

Sure. Why don't I take the first question, and I will let Sean follow-up with the financing question. Certainly, the wholesale propane business this year, it's been a very robust season, obviously, with the cold weather. We have been importing ships to really handle the supply needs of our customers. The one thing I would say is, as we are above our base contracts, a lot of the spot sales that are being made are being made at margins that are probably less than our base contracts.

But -- so, overall, we are handling the needs of our customers. We are probably looking at a reasonably good year, but I would just say that the year will come in at or above our target plan at this point.

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

And Harry, to follow up on your second question, as you know, DPM has got full investment-grade ratings across the board. We target a 3x to 4x debt-to-EBITDA range, and we are consistently -- we've talked about our 45% -- 55% composite and we would anticipate to hold that composite throughout the long-term and the rest of the year as well.

Harry Mateer - *Barclays Capital - Analyst*

Great, thank you.

Operator

Ross Payne, Wells Fargo.

Ross Payne - *Wells Fargo Securities - Analyst*

You guys have obviously been dropping a lot of fee-based assets into DPM or getting the long-term contracts with DCP Midstream, LLC. Is that something we can continue in the future? Can we see the fee-based component continue to build on the 55%? Or, as you guys get bigger, are you going to be willing to take more commodity risk? Thanks.

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

Ross, I will take that question. Certainly, as we look at the Partnership and the fact that we are getting into a lot more of the downstream logistics type assets, they are all fee-based and have, as you mentioned, long-term contracts associated with them. So, I think, overall, we see the trend in our fees continuing to increase. Even the new Lucerne plant has been structured contractually to be a fee asset.

Going forward, we have shown that we will -- the private company will write the hedges. They have shown that they will structure commodity-sensitive assets at fee. As we go forward, the entity is a much bigger entity and probably can withstand some further commodity sensitivity as we get larger. But overall, I would say at this point it's unclear as to how we would look at that until the time actually arrived for further assets from Midstream.

Ross Payne - *Wells Fargo Securities - Analyst*

Great. (multiple speakers)

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

(multiple speakers) Wouter, you want to comment briefly on that?

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

Ross, let me add to that my appearance. At DCP Midstream, there continues to be a tremendous amount of assets. And if you look at the various assets, there are areas where we see continued growth in fee-base, and like the Midcontinent area is a great example of an area that we see more and more fee-based assets. So I think there continues to be a great slate of opportunities of assets that could come into the Partnership.

Ross Payne - *Wells Fargo Securities - Analyst*

Great. Thanks, guys.

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

Thanks, Ross.

Operator

Michael Blum, Wells Fargo.

Michael Blum - *Wells Fargo Securities - Analyst*

Just first question -- you talked about $200 million -- I believe, if I heard this correctly -- $200 million of potential capital to spend on new connections into Sand Hills and Southern Hills. And I just was curious if you could expand upon that a little bit in terms of, number one, just the timing for that? And is that just net to your one-third interest? And then, if you were to tie these in, does that require expansion of the current capacity of those pipelines?

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

Ross, I'll tell you, that's a great question and I'm glad we could clarify that. Certainly, the $200 million is on an [8/8ths] basis. And we would be connecting in not only DCP growth opportunities in the Permian but other third parties. And so, if we looked out in time, I think there is the need for additional capacity beyond the 200,000 barrels a day. And we would certainly have the capital already in our econs to expand the pipeline, if needed.

Michael Blum - *Wells Fargo Securities - Analyst*

Okay, great. And then I'm curious, just your -- I think if I go back maybe six months, you had talked about a 2014 growth rate target of, I think, a range of 6% to 10%. And now you've kind of narrowed that down to 7%. So I'm just curious for the thought process there in doing that. And then do you envision any upside to that 7%? And if so, what would be the drivers of that?

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

Michael, recently, as you know, we did increase our distribution growth rate, and so we are ahead of last year. When you look at these assets that are coming into the Partnership, we are very excited about them. But they do have a growth profile over time and a ramp to them. And the example of the Southern Hills/Sand Hills Pipeline ramp is a perfect example of that.

We also have organic projects, and particularly the Keathley Canyon project and now the Lucerne 2 project, that are really coming into service later in 2014 and 2015. And certainly, we generally don't comment on the timing of our dropdowns, so it's hard to say what any future drops -- you know, their contribution to 2014, what that might be.

So, at the end of the day, our goal is to have sustainable distribution growth. Our current progression is currently a tad under the 7% range. That's not to say that we couldn't end up over the 7% target, depending on asset performance and drops. So we want to -- at the end of the day, we want to fund our organic growth projects because that's where we are going to get the sustainable growth that we are talking about. And we also want to keep our metrics in line for leverage and coverage as well. So, at the end of the day, we want to provide you as much transparency as possible, and we want you to be able to take our guidance to the bank.

So, I think right now the 7% is a good target, plus or minus. And we'll see how these assets perform as they come into the Partnership.

Michael Blum - *Wells Fargo Securities - Analyst*

Okay, great. And then just two more quick ones for me, if I may. One -- just wanted to clarify at the Chesapeake Terminal, it seemed to indicate in the press release that you had some propane exports in the first quarter of 2013. Could you just talk about -- are you currently exporting propane out of that facility? And is the debottlenecking for butanes? Or is that also for propane?

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

Just to clarify -- and you are absolutely right; we did export propane out of that terminal about a year and a half ago, I think it was -- that was only a function of the fact that we already had propane that had been imported. And so it was of export quality, if you will. But going forward, it appears to us that we are moving towards a butane export facility. We've got -- we are very far along in the process of getting that contracted.

And I think that's just the start, because I think there's even additional interest, once we get the base contract in place, of additional butane exports coming out of that facility. So, we do see that as the future of that facility at this time, it will be a butane export facility.

Michael Blum - *Wells Fargo Securities - Analyst*

Okay. And then last for me -- in the NGL Logistics segment, you had a write-off for a discontinued project. Can you just talk about what that was?

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

It was a relatively small project in our Northeast business, where we had spent some dollars on some potential projects that we took a small write-off on, Michael.

Michael Blum - *Wells Fargo Securities - Analyst*

Okay, thank you very much.

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

Thank you, Michael.

Operator

Elvira Scotto, RBC Capital Markets.

Elvira Scotto - *RBC Capital Markets - Analyst*

I just had a couple of questions of clarification. So when you provide the DCF of $400 million to $420 million, that's just including this announced dropdown, even though you are expecting $1.5 billion of dropdowns?

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

That's correct.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. And then just going back to Sand Hills and Southern Hills, when you talked about the ramp-up in the DCF, $50 million in 2014, $90 million in 2015, and $100 million in 2016, is that on take-or-pay, fully committed? Is there any volumetric exposure there? Is that based on the minimum commitments?

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

Elvira, I'm glad you asked that. The guidance that we are giving around the pipeline is really -- again, we are calling it our base case. We've got some pretty conservative assumptions in there for ethane recovery and those types of things. And so, to our one-third interest, that is the base case growth profile. And it really does not include any of these other opportunities that we are talking about that we just mentioned earlier on a previous question. There are some plants that will be built and coming into service throughout late 2014/2015 time-frame that we are working with the third parties to connect their facilities.

And so that's all kind of upside to the numbers you are looking at. But the base case, our one-third interest -- that's what we are guiding to as far as DCF is concerned.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. And then just my last question, on the Lucerne plants. The long-term minimum throughput fee-based contracts, are those minimum throughputs? What are they? And are they on the total capacity upon startup? Or do they ramp up to a certain amount?

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

Elvira, I think we have said that the minimum throughput commitments are about 75% of capacity. And that's just a way to make sure we de-risk the project. We do get a fee on the entire throughput of the plant. So, for instance, O'Connor had a minimum throughput of 75% of 110 MMcf a day. But obviously, we filled up the plant. So we are getting fee on the entire 110 MMcf a day, but the minimum would be 75% thereof.

That will be the same kind of arrangement with Lucerne 1 and Lucerne 2. When both plants are in operation, that will be 235 MMcf a day of capacity; about 75% of that is minimum throughput. But again, as long as we ramp up over that minimum, we certainly collect our fees. And the Partnership will be excited to see these plants in service and ramping up, and hopefully, full in the near future.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Jeff Birnbaum, UBS.

Jeff Birnbaum - *UBS Securities LLC - Analyst*

So I actually had just two follow-up questions to Michael's questions, and just a quick housekeeping question. So, first, on sort of the distribution growth strategy, it does seem that it's been a couple years in a row now that the growth guidance has been narrowed and come in at the lower end. And I know that the business continues to do very well, the dropdowns are accelerating and DCP Midstream continues to spend CapEx itself.

But as we think about it, though, how should we be thinking about it, I guess, as those drops require funding and often there's volumetric ramps? I mean, am I hearing you right, Bill, on perhaps to get to a bit of an accelerated growth rate from here, it's fair to say that we are going to need to see some more lower-multiple organic projects that are going to be really the catalyst for that?

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

Well, we certainly have a nice slate of organic growth projects and we are seeing those projects' returns in very good mid-teens range. The only thing I would say is we are conservative in nature. We want to be able to deliver on what we say we are going to do. We don't want to walk you backwards. We have a very nice ramp and growth profile looking out into the future.

And so I think as you saw this last quarter, we raised our distribution growth rate. We want to see how these assets come into the Partnership, how they perform. And as we get good line-of-sight, there's always that possibility that whether the 7% guidance today we end up slightly over -- I think we just want to keep looking at the sustainable distribution growth. And that's really the goal and strategy of this organization.

Jeff Birnbaum - *UBS Securities LLC - Analyst*

Okay. And then in terms of the Memorandum of Understanding for shipping butane out of Chesapeake, is that likely to take up the full capacity of that facility? And if not, I mean, do you expect -- it sounds like you are expecting it to be predominantly butane, but -- so is that MoU for all of it? Or not?

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

The way we are working it right now is the Memorandum of Understanding is for one customer, and they would take one tank. As you know, it's a two-tank facility. And so there is the opportunity for further expansion. And we are just working through the logistics of keeping product quality intact, and we hope there is an upside opportunity there.

But again, our whole focus has been getting the first kind of deal under our belt. We are almost there. Again, it's not a done deal, so I think we are just giving you enough information at this point that we are, hopefully, 90% of the way there. And we are going to be successful and continue to grow the export capabilities.

Jeff Birnbaum - *UBS Securities LLC - Analyst*

Okay, great. And then a quick question just on hedging -- the 2015 hedges, does that include re-contracting of the three-year hedges of the Eagle Ford assets that are expiring first-quarter or so of next year?

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

No. We obviously -- on our hedge profile, we take a portfolio approach at the end of the day. So, our 2015 hedge percentages are predicated on the total portfolio and the total length that we have there.

Jeff Birnbaum - *UBS Securities LLC - Analyst*

Okay. Okay, thanks a lot.

Operator

Selman Akyol, Stifel.

Selman Akyol - *Stifel Nicolaus - Analyst*

Related to the Eagle Ford system, you made some comments that you are currently at 75% to 80% capacity. And I'm wondering, longer-term, how do you view that in terms of expansion potential? And then since you own 100% of it now, would it be done at the Partnership level? Or is there any potential for Midstream to be doing it and then dropping it in?

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

I'll take that question in reverse. The first question -- or the second question is, now that the asset is 100% in the Partnership, if there is growth opportunities around this asset, those growth opportunities would remain at the Partnership. And to the first part of your question, we already have, actually, a permit on file for another plant in the area. I think we are looking at the overall buildout of the area and want to be careful that, I think, industrywide, there might be a perception that it might be getting a little overbuilt. But certainly, we want to make sure we fill our assets.

We've got a great strategy of, we call it, a super-system strategy where we interconnect everything. So, no matter where the drillbit goes, we have been able to fill our plants. They are filling nicely. And we will just assess in the future whether or not it makes sense to deploy more capital for possible use of excess capacity at some of the other facilities that seem to be out there.

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

Hey, and Selman, this is Wouter. Just to add to that, the 75% to 80% was with the new Goliad Plant coming online. So, our system was pretty much full before we put the new Goliad Plant online. And as Bill mentioned in his prepared remarks, as soon as we put that new Goliad Plant online, we had 60 MMcf a day coming into the system. So, we feel very good about how we are ramping up in the capacity, utilizing our capacity in the Eagle Ford.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right. And just one other quick question. On Chesapeake, clearly butane exports; but just longer-term, is there any thoughts on ethane exports?

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

No. That's probably an easy one. The tanks aren't rated for ethane.

Selman Akyol - *Stifel Nicolaus - Analyst*

Thank you very much.

Operator

Helen Ryoo, Barclays.

Helen Ryoo - *Barclays Capital - Analyst*

Just a quick follow-up. So starting with the Southern Hills/Sand Hills dropdown, your 2016 DCF number -- what kind of capacity utilization or excess capacity would you have at that point, when you talk about the [100 Mmcf] DCF contribution? Is that pretty much -- are those pipes pretty much full at that point? Is there some excess capacity to putting in or move more volumes, if you are able to tie in other third-party plants?

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

Yes, Helen. I know -- I think at the Spectra conference, there was a comment that the exit rate on Southern and Sand Hills would be around 230,000 barrels a day. Again, I only encourage you -- I mean, that's the base case. And we really aren't talking too much about what the volume growth is down the road. Because, as we tie in these plants, we also have to then factor in the ramp profile of those plants in the Permian, because they certainly have a ramp feature to them, whether it's a DCP plant or a third-party plant.

But I would only say that as you get further out in time, those revenues or those DCF numbers are certainly driven by volume and tariff. And the tariff is a published rate on our website. So --

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

So, needless to say, and like if you are sitting at that type of exit rate that Bill mentioned, and like it's also capacity, if we put additional [FUM] stations in, you can ramp the pipe up to 350,000 barrels, give or take. So there is a significant amount of upside from where we are kind of looking at in 2016 from a [void] point of view.

Helen Ryoo - *Barclays Capital - Analyst*

Got it. Thank you. And then just another follow-up to, I guess, the previous discussion on the fee-based assets or contracts at the LLC level. As the LLC contracts out new processing plant capacity, are you guys doing or able to get a fee-based contract on it? Or is it the case that you do it more on a portfolio approach, and pretty much the producers take the additional capacity in line with sort of the legacy contract, being mostly the PLP type contracts?

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

No. I think, Helen, unlike -- contracting is a very -- is very dynamic and different throughout the different regions that we do business in. Like here up in the North region, we see a lot of live fills deep in the mining PLPs. You see an area like the Midcontinent go more fee-based.

So the good thing about where we are as an enterprise, the strong balance sheet that we have both at Midstream and at the Partnership, investment-grade ratings everywhere, we look at what makes the most sense. And that can be fee-based; that can be POPs. We work together with producers; we like to be aligned with the producers. And we are very dynamic around what we think makes the most sense and what creates the most long-term shareholder value.

Helen Ryoo - *Barclays Capital - Analyst*

Okay. So you have some fee-based contracts at the parent level processing plants?

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

Yes, absolutely. If you sit -- and like there's a good amount of fee-based assets in various assets that are still sitting at DCP Midstream's private entity.

Helen Ryoo - *Barclays Capital - Analyst*

Got it. All right. And then just lastly, just a clarification -- when you talk about the dropdowns, in the 3 billion to 5 billion dropdowns between 2014 and 2016, does that include what was just dropped down? Or is that incremental?

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

Yes. No, Helen, that does include what was just dropped down. So, like the way we look at it, coming out of the gate pretty fast here in 2014 guiding to [1.5]. And then we look at what the growth is, what the need is for the Enterprise as a whole. But we will continue to see very good growth opportunities and strong growth opportunities throughout our footprint at DCP Midstream. And as you know, the Partnership is a funding vehicle for the Enterprise. So I think that bodes pretty well.

Helen Ryoo - *Barclays Capital - Analyst*

Okay, great. Thank you very much.

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

Thank you, Helen.

Operator

Jerren Holder, Goldman Sachs.

Jerren Holder - *Goldman Sachs - Analyst*

Just wanted to touch, I guess, on the remaining $3 billion to $5 billion in dropdowns. Is essentially that's going to come from new spending that DCP Midstream is doing? Or should we expect some of it to come from the legacy Permian and Midcontinent assets that you have currently?

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

Well, if you look at it on like the Eagle Ford right now, it's completely into the Partnership. We have about 50% of the processing capacity here in the North will be sitting in the Partnership. There continues to be, even in the North, a lot of other assets, I mean, for structure.

I think, as we have always said, we are looking very -- throughout our portfolio and see what makes the most sense for the Partnership, what makes the most sense for Midstream. But the pipes -- we are taking these pipes in. That's the first entrance for the Partnership into the Permian Basin, into the Granite Wash and SCOOP area. And I think there's continued opportunities here in the future.

Jerren Holder - *Goldman Sachs - Analyst*

Okay, thank you.

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

Thank you, Jerren.

Operator

Abhishek Sinha, Wunderlich Securities.

Abhishek Sinha - *Wunderlich Securities - Analyst*

Most of my questions have already been answered. Just a quick one on the organic growth. If you could provide some color on how the multiple ramps up? Or even in terms of an EBITDA, how do we see how much of it is coming from 2014 versus 2015 and 2016 or any outer years?

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

Right now, I would just say that the organic growth is -- and the bigger organic growth projects are more towards the end of this year and into 2015. So I think that's where you will see the ramp-up, significant ramp-up occur. And so those multiples can be achieved in a fairly short period of time. We do think the ramp on some of these plants is going to be significant. So, I would just peg that more towards the latter half of this year and into next.

Abhishek Sinha - *Wunderlich Securities - Analyst*

And I assume that all that organic projects will be all like 100% fee-based? Is there any minimum holding commitment that you can highlight to?

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

Well, I know the Keathley Canyon project is 90% fee. And certainly Lucerne is all fee. So right now, all the ramp-up would be fee-based.

Abhishek Sinha - *Wunderlich Securities - Analyst*

Okay. That's all I have. Thank you very much.

Operator

John Edwards, Credit Suisse.

John Edwards - *Credit Suisse - Analyst*

Just a quick follow-up. So, on your dropdown pacing that you are expecting, you've got -- you are targeting 1.5 billion this year. I mean, is it safe to assume you will be about 1.5 billion for each of 2015 and 2016? Or are you expecting skewing toward the front or toward the back in any way?

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

Is also a yes -- as we've mentioned, it's a $3.5 billion to $3 billion to $5 billion. You layered a $1.5 billion in. And like our strategy is being a growth-for-growth strategy. So, when we grow a dollar at DCP Midstream, we grow a dollar at DCP Midstream Partners. So, as I said earlier, we continue to see a lot of growth opportunities around the footprint at Midstream. And in the end, that will bode very well for the Partnership.

John Edwards - *Credit Suisse - Analyst*

Okay. So does that mean you are thinking of layering it in on a relatively average basis? Or --?

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

Like -- it's a $3 billion to $5 billion, as we told you.

John Edwards - *Credit Suisse - Analyst*

All right, fair enough. Okay. And then on just one other quick -- what kind of volume ramp-up are you expecting on Lucerne, the Lucerne 2, the new one?

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

Lucerne 2 -- again, it's a mid-2015 start. If we look at the DJ Basin, it has been a very good growth area. The capital spend continues to be strong. All's I can say is we expect it to ramp quickly. I don't think we have -- I'm probably not going to give exact guidance as to what we believe, because we do need to see how the drilling and the performance of some of the E&P producers -- how that continues in this area. But they're into drilling up the area. And so we have every expectation that it will fill relatively quickly.

John Edwards - *Credit Suisse - Analyst*

Okay, great. Thanks.

Operator

Thank you. I will now turn the call back over to the presenters for closing comments.

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

I just want to thank everybody for their interest in the Partnership. These are exciting times at DCP Partners. And with the dropdown just occurring, it's a great assets coming to the Partnership. So we appreciate your support and your time today.

Operator

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