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DPM - Q1 2013 DCP Midstream Partners, LP Earnings Conference Call

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PRESENTATION

Operator

Welcome to the DCP Midstream Partners first quarter 2013 Earnings Conference Call. My name is Christine and I will be your 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 Andrea Attel. You may begin.

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

Thank you, Christine. Good morning, everyone, and welcome to the DCP Midstream Partners first quarter 2013 earnings call. As always, we want to thank you for your interest in DPM. This call is being webcast and the slide view for today's call are available on our website at www.dcppartners.com.

Before I turn it over to Bill, I want to remind you that in the course of our discussion today, and in the subsequent Q&A session, we may be making forward-looking statements. Please review the second slide in the deck regarding forward-looking statements,noting that our business is subject to a variety of risk factors that may affect actual results.

For a complete listing of these and other risk factors that may impact our business results, please review the partnership's most recent Form 10-K filed with the SEC. Also during our discussion, we'll be using various non-GAAP measures, which are reconciled to the nearest non-GAAP measure, scheduled in the appendix section of our earnings slide.

With that, I'll turn the call over to DPM's President Bill Waldheim, Thanks, Andrea.

Bill Waldheim - *Midstream Partners, LP - President*

Good morning, everyone, and thanks for joining is today for a discussion of DPM's first quarter results. Before I get started, I want it welcome Andrea to our team. She will be picking up the Investor Relations role, where Jonni Anwar left off, as he moves onto another role in DPM. So, welcome, Andrea. I also have with me Rose Robeson, our CFO.

I hope you saw our Press Release last night, which showed solid first quarter distributable cash flow of $77 million, up 40% from Q1 of 2012, and in line with our 2013 target. For the tenth consecutive quarter, we have increased our distribution. That represents a [1.4 %] sequential quarter and 6% year-over-year increase, in line with our forecast of 6% to 8% distribution growth for 2013. This increase also demonstrates the Partnership's stable earnings, due to our fee-based income and attractively-positioned hedge book, and that we are confident in the future cash flows from the visible growth we have talked about.

As mentioned, we generated distributable cash flow of $77 million in the first quarter, which I would like to point out was a record for DPM. We also couldn't be happier that we completed the Eagle Ford Joint Venture dropdown, with DPM's interest now at 80%. This is one of the largest gathering processing systems in the prolific Eagle Ford Shale play, with 1.2 BCF per day of total processing capacity. The $626 million transaction not only adds volumes, but it speaks volumes about how we are executing on our strategy. So, we are very pleased about this accretive transaction.

Additionally, during the quarter, we raised, approximately, $1 billion, of capital through execution of offerings in both the equity and debt capital markets. Rose will provide some more details later in the call. We're very happy with these results and believe this puts DPM's balance sheet in great shape.

This financing is another achievement that underscores our position to serve as an attractive funding source fort the DPM Midstream Enterprise. With that overview, I would like to offer up some more specifics on our growth projects.

On Slide 4, let me start by talking about our growth and dropdown activity with our general partner over the past couple of years. Our cumulative amount of growth since the beginning of Q1 of 2011, now stands at $2.5 billion.

You can clearly see that the growth and drop downs continue at an accelerating pace, And with the additional investment in Eagle Ford, our strategy is playing out where DPM, as a financing vehicle for DCP Midstream, is receiving some great assets and growth. That means we are achieving our goal of providing unit holders sustainable distribution growth.

Next on Slide 5, you can see our growth forecast. Which is shown based on the timing of our cash spend. For 2013, we are targeting about $1 billion of dropdown opportunity, which includes the recently-completed Eagle Ford dropdown. We also have ongoing organic growth of another $500 million. In fact, I recently visited our Goliad Plant site, where construction is progressing nicely. Compressors are set and towers are going up to it's beginning to look like a real plant.

In 2014, we would expect another $1 billion of dropdown opportunity, and subject to the approvals of both the DCP Midstream and DPM Board, this would include the expected drop downs of DCP Midstream's one-third interest in Southern Hills and Sand Hills pipelines. We also wanted you to know, on this slide, the in-service dates for the various organic growth projects. The EBITDA from our dropdowns, and organic growth, will support distribution growth targets of 6% to 8% in 2013, and 6% to 10% in 2014.

So, now, just a quick comment on the Eagle Ford dropdown. In March, we completed the immediately accretive dropdown from our general partner of an additional 47% interest in the Eagle Ford Joint Venture bringing, our total ownership to 80%. DCP Midstream took 20% of the consideration for this dropdown in DPM common units, which shows their continued belief in these assets.

When the Eagle Ford build-out is complete, DPM will own one of the largest gathering processing systems in the area, and once our Goliad Plant is complete, we will have total processing capacity of 1.2 BCF per day. Along with this transaction, DCP Midstream has provided a three-year direct commodity price hedge for the Eagle Ford dropdown, and a direct commodity price hedge on the Goliad Plant volumes. The earnings stability these hedges provide differentiates DPM from our peers. This transaction is another great example of how we work with our general partner to fund DCP Enterprise growth. With that, let me provide a brief operational update.

Beginning on Slide 7, our Natural Gas Services segment continues to experience substantial growth with the completion of the dropdown we just discussed. The consolidation of the Eagle Ford Joint Venture into DPM will continue to be a major of source of growth in the coming years. Also, during the quarter, we placed our $200 million a day Eagle plant into service, which I'm happy to report is already at 60% to 65% utilization and climbing. The Keathley Canyon pipeline project, out of Discovery Joint Venture, is also progressing nicely, with an in-service target date of mid-2014. Additional reserves continue to be added to this project, with deep water producers announcing success in and around this area.

Next, in our NGL Logistics segment, our exciting organic growth projects are progressing as expected. Both our Texas Express Joint Venture pipeline and our Maryville's ethane storage expansion projects are on time and on budget. Further, as demands for storage in the Northeast region continues to grow, additional Maryville expansions are being considered. Looking forward, we expect our NGL Logistics segment to continue to have significant growth in the next couple years, with the targeted dropdown of the one-third interest of the Southern and Sand Hill pipelines from our general partner. Both pipelines are currently taking NGL raw make into their systems and building [line] file.

Finally, in our Wholesale Propane segment, we had an excellent first quarter, with what I'm happy to report was a normal, or should I say, cold winter, with a cool spring. Of interest, we recently contracted to import a ship this summer and have pre-sold most of the product for next winter, locking in attractive margins on this volume. Work is under way on both the commercial and engineering fronts to solidify Chesapeake as, both, an import and export facility, and we are encouraged by our work to date.

With that, let me turn it over Rose to review our financial results.

Rose Robeson - *Midstream Partners, LP - CFO*

Thanks, Bill, and thanks, everyone, for joining us today. As we stated in our Earnings Release last night, we are required to recast our 2013 quarter for the 47% Eagle Ford dropdown, and our 2012 quarter for our 80% interest in Eagle Ford and the two-thirds interest in Southeast Texas. This is required even though DPM did not own these assets during these periods. So, this creates a lot of complexity in our numbers.

So, while we hedge the majority of commodity risk at DPM, prior period GAAP results reflect DCP Midstream's unhedged portion of it's open interest in Eagle Ford and Southeast Texas during those periods, which reflects higher commodity prices in 2012. So, as a basis for comparison, I will discuss the quarter-over-quarter variances for the assets actually owned by the partnership during the first quarter of 2013 and 2012, better reflecting the trends and results we achieved. These results are shown in the shaded box on this slide.

So, excluding results attributable to DCP Midstream's ownership in the dropdown assets, DPM's adjusted EBITDA was up, approximately, $18 million, or almost 25% over first quarter of last year. I will review the details by segment in the next few slides. We generated DCF of $77 million in the first quarter of 2013, our cash distribution coverage was 1.4 times, and slightly over one times for the trailing 12 months. Keep in mind, our first and fourth quarters are our strongest quarters, due to seasonality in our Wholesale Propane business.

For the full year 2013, we expect coverage to be below our long-term target range of [1.1 times] to 1.2 times, reflecting the financing lead time of our organic growth projects, but we do expect to be back within range once these organic projects come online. So, if you turn to the next slide, I will review our results of our Natural Gas Services segment. And again, excluding results attributable to DCP Midstream's ownership of the dropdown assets, DPM's adjusted EBITDA increased $6 million, or 10% compared to the prior year.

Growth from Southeast Texas and the initial Eagle Ford dropdown more than offset the impact of lower volumes across certain assets, lower commodity prices, and operating expense timing. Our hedging program continues to provide stability in our Natural Gas Services segment, and I will discuss our updated hedge percentages and sensitivities in a moment. Turning now to our NGL Logistics segment, we almost doubled our first quarter adjusted EBITDA from last year to $23 million. This increase is, primarily, due to the dropdown of the Mont Belvieu fractionators and higher margins at our Maryville's storage facility.

Slide 11 shows the results of our Wholesale Propane segment, our adjusted EBITDA increased over 20% from 2012 to $222 million. With a return to more normal weather, adjusted EBITDA was up almost 45%, excluding a noncash project write-off. And as I mentioned earlier, this business does have seasonality, with the majority of earnings coming do you remember the first and fourth quarters.

On the next slide, let me recap our DCF and our distribution growth targets, as well as provide an update on sensitivities. Our fee-based and hedge margins, as well as our sensitivities, have been updated for the Eagle Ford dropdown, including the associated direct commodity price hedges. Post the Eagle Ford dropdown, about 95% of our margin is now fee-based, or hedged. Our updated sensitivities for 2013 show that we are, now, neutral to changes in natural gas and crude prices, and our sensitivity to the NGL-to-Crude relationship is, now, about half of what it was prior to the recent Eagle Ford dropdown. So we have very limited exposure to commodity prices in 2013.

Our 2013 DCF forecast, which includes the Eagle Ford dropdown, remains the same at $260 million to $280 million, with the addition of the perfected hedges associated with the Eagle Ford dropdown, commodity price impacts on 2013 DCF have been significantly reduced. Consistent with past practice, our DCF forecast for 2013 excludes the impact of potential future acquisitions, or dropdowns, or any unannounced organic expansion.

And, lastly, our first quarter DCF of $77 million is in line with our full-year forecast and we are on track to achieve our 6% to 8% distribution growth target in 2013. Slide 13 shows our updated hedge book. The key points to noted on this slide are, we are 95% fee-based or hedged; 50% of our margin is fee-based; and on the remaining 50% of commodity-based margins, we are 90 percent hedged. It is important to note that 90% of our hedges are, now, direct commodity price hedges. So, with this attractive hedge book, we have significantly reduced our exposure to, both, commodity prices, as well as the exposure to the relationship between crude oil and NGL prices.

Slide 14 outlines our financial position at the end of the quarter. We continue to maintain a strong capital structure and a competitive cost to capital. During the quarter, we raised, approximately, $1 billion of capital, through the successful execution of offerings in, both, the equity and debt capital markets. We raised, approximately, $500 million in the equity markets through the largest equity offering in DPM's history. We, also, raised an additional $500 million of ten-year bonds at a very attractive rate of [3.78%]. Our average costs of debt is 3.7% and we had approximately $850 million in unutilized revolver capacity.

And, finally, our debt-to-EBITDA leverage ratio is 3.8 times and, as Bill said earlier, our balance sheet is in great shape after our equity offering. I would, also, like to note that both S&P and Fitch have recently affirmed DPM's [TripleB Minus] investment-grade ratings and stable outlook. We remain committed to our investment grade ratings and continue to be and attractive funding source for the DCP Midstream Enterprise.

So with that, Bill, I will turn it back to you for some summary remarks.

Bill Waldheim - *Midstream Partners, LP - President*

Thanks, Rose. I would like to close this morning by leaving you with the following. Our first quarter distributable cash flow of $77 million was up 40% over Q1 of 2012. This fact, alone, highlights the growth that we are achieving with DPM. We have had ten consecutive quarterly distribution increases.

Our finance results are in line with our 6% to 8% distribution growth targets for 2013 and, finally, the visible growth opportunities this year and next put is well on our way to executing on our growth targets and becoming a fully-integrated Midstream Service provider.

So, with that, I want to thank you for your interest in DPM and I will turn it back to Christine for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question is from Elvira Scotto of RBC Capital Market. Please go ahead.

Elvira Scotto - *RBC Capital Markets - Analyst*

Hi. Good morning. Can you provide some more details on the propane exports out of the Chesapeake terminal? Any more detail on the terminal; how much did you export this quarter? What do you think you can, ultimately, do out of that terminal?

Bill Waldheim - *Midstream Partners, LP - President*

Good morning, Elvira. This is Bill. You know, as we stated previously, this last quarter, we exported about 6 million gallons out of the Chesapeake terminal, and we are currently working on debottle necking the logistics in and out of that facility, so we will have the ability to bring product into Chesapeake for export.

We are also working on some of the engineering to be able to chill that propane for export. Right now, we would anticipate -- the project is moving along nicely at this point. It's a little too early to say if it's going to be a go yet, but we're very encouraged by our discussions from the commercial team to the customers and, also, from engineering to look at the project. So, it's a little early to tell exactly what we would be able to export on an ongoing basis at this point.

Elvira Scotto - *RBC Capital Markets - Analyst*

So is this project not included in your 2013 outlook?

Bill Waldheim - *Midstream Partners, LP - President*

No. This project would not be included in the 2013 outlook. In fact, we do have some integrity work that's occurring at that facility this summer, so, probably, the earliest we would be exporting would be into early next year.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. Great. And, then, can you just talk, maybe, a little bit about ethane injection? Are you seeing anything across your systems or DCP's systems that impact your volumes?

Bill Waldheim - *Midstream Partners, LP - President*

Yes. Elvira, I will talk about it in two aspects. Across the entire DCP enterprise, we've had some modest rejection in the mid-continent, as you might expect.

As we have said, DPM's assets are further south and closer to the end-use market. So, we've had very limited rejection in and around the DPM assets at this time. I point out that contract structure, it is a complex question on whether you reject or not. Contract structures behind your plants do matter, as well as the quality of the plant itself and it's ability to reject ethane. So, we have seen some limited rejection but all-in-all, I wouldn't call it very material at this point.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay. Thanks. And, then, the last one for me, Sand Hills and Southern Hills, can you just remind us how the volume ramps on those two lines?

Bill Waldheim - *Midstream Partners, LP - President*

Sure. I will start with Sand Hills pipeline. The pipeline is, now, executing it's landfill operation as we speak, and that will take a month or two to actually get the line full of product, at which time it will begin service. We've always said that it will take several years to actually ramp-up the volume that we anticipated. I believe we have stated 200,000 barrels a day is the initial capacity we would target in the two- to three-year time horizon. So, that's still the plan at this point.

The Southern Hills pipeline is about a 150,000-barrel a day facility and it, too, is executing it's line fill operations as we speak and will be in service here shortly as well. I would say the same things about that system.

We really anticipate those systems to fill up, Southern Hills in particular, as certain contracts roll-off; and as those contracts roll off, we'll be diverting product into that line, which till take several years to actually accomplish. So, both systems will be in, ramping up in 2013 and 2014, to what we would hope is their projected, initial volume outlook.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great thank you very much.

Bill Waldheim - *Midstream Partners, LP - President*

Thanks, Elvira.

Operator

Thank you. (Operator Instructions). Our next question is from Michael Blum of Wells Fargo. Please go ahead.

Michael Blum - *Wells Fargo - Analyst*

Hi. Good morning, everyone.

Bill Waldheim - *Midstream Partners, LP - President*

Good morning, Michael.

Michael Blum - *Wells Fargo - Analyst*

Just two quick questions for me on the Propane segment. I apologize if I missed this in remarks, but you had a write-off for discontinued construction project. Can you just talk about what that was?

Bill Waldheim - *Midstream Partners, LP - President*

Sure. We were, as you know, working for a possible facility in the Maine, Searsport area, and as we pursued that project, the permitting was going along very well, but in the end, the city did not allow for our permit and, at that point, we decided that that project would no longer be viable. So, that's where that write-off comes from.

Michael Blum - *Wells Fargo - Analyst*

Okay. Great. And, then, more of a big picture question for me. It clearly looks like the Northeast will be long propane, at least for part of the year, and there's probably going to be a need for more storage. Are you looking at opportunities like that? Do you see anything in the near-term that could be developing for that business for you?

Bill Waldheim - *Midstream Partners, LP - President*

Yes. I think, as we mentioned, the Maryville facility is, actually, in a very good location to act as a buffer for the extra production that's coming on in the Marcellus and Utica Shales. With the conversion of the facility to actually, now, handle ethane for [Novacam], we have additional opportunities to enlarge the propane and butane storage at that location. As I mentioned, we are looking at that as we speak and you will probably hear more about that in the months to come.

Michael Blum - *Wells Fargo - Analyst*

Great. Thank you.

Bill Waldheim - *Midstream Partners, LP - President*

Thank you.

Operator

Thank you. Our next question is from Jeremy Tonet of JPMorgan. Please go ahead.

Jeremy Tonet - *JPMorgan - Analyst*

Good morning.

Bill Waldheim - *Midstream Partners, LP - President*

Good morning, Jeremy.

Jeremy Tonet - *JPMorgan - Analyst*

Thanks for the updated disclosures on the commodity hedge position. It seams like you guys have really knocked out a lot of price sensitivity there. I was just curious as far as 2014 and 2015, if sensitivity levels would be similar it to what they are in 2013?

It looks like the amount that is hedged is somewhat similar, so I'm just curious, as far as this removing commodity price, exposure is more than just 2013, if sensitivities in 2014 and 2015 will be similar?

Bill Waldheim - *Midstream Partners, LP - President*

Jeremy, I'm going to let Rose take that one.

Rose Robeson - *Midstream Partners, LP - CFO*

Sure. Thanks, Jeremy. Certainly as we look at the hedge book for 2014 and 2015, we are similarly hedged in 2014 and 2015at about 90%. We do have some fairly significant fee-based projects coming online in 2014, the Keathley Canyon project, so we would expect that, certainly as we sit here today, 2014 and 2015 looks like we have, certainly, significantly decreased our commodity exposure for those years as well.

Michael Blum - *Wells Fargo - Analyst*

Got you. Okay. And I apologize if I missed it in the prepared --

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Jeremy Tonet - *JPMorgan - Analyst*

Great. Thank you. I'm sorry if I missed it in the prepared remarks, but I was just wondering, given all the spend that's happening upstairs, if there's any potential to accelerate the dropdown program? It seems like you guys have had got success in accessing the capital markets and seems like there's a need up top, so I'm just curious what their thoughts are there?

Bill Waldheim - *Midstream Partners, LP - President*

Jeremy, this is Bill. When we look at the financing needs for the enterprise, it really is dependent upon the spend at DCP Midstream, and as they've indicated, they have a nice backlog of projects, if you will.

So, the spend that we've laid out in our guidance is what we have very good line of sight on and feel comfortable guiding with, but that spend is always subject to change, based upon the needs of DCP Midstream.

Jeremy Tonet - *JPMorgan - Analyst*

Got you. Great. Thank you very much.

Bill Waldheim - *Midstream Partners, LP - President*

Thank you.

Operator

(Operator Instructions). We have no further questions at this time. I will turn the call back over to Bill Waldheim.

Bill Waldheim - *Midstream Partners, LP - President*

Thank you, Christine. Thanks, everyone, again for your interest in DPM. If you have any follow-up questions over the coming days, feel free to contact Andrea, Rose, or myself and we can make ourselves available. So, thank you.

Operator

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