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DPM - DCP Midstream Partners, LP at National Association of Publicly Traded Partnerships MLP Investor Conference

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CORPORATE PARTICIPANTS

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PRESENTATION

Unidentified Participant

Next presentation by DCP Midstream Partners. DCP has a great story to tell. They are certainly tops in many rankings. Our annual Midstream Business Magazine rankings placed them at the top in both gas liquids production and processing last year. They operate in three segments -- Natural Gas Services, NGL Logistics, and Wholesale Propane.

And giving their presentation this morning is their Chairman, CEO, and a good friend of Midstream business, Mr. Wouter van Kempen.

Wouter van Kempen - *DCP Midstream Partners, LP - Chairman, President and CEO*

Great. Good morning, everyone, and thanks, Paul. As Paul mentioned, I'm Wouter van Kempen. I'm the Chairman, President and CEO of DCP Midstream and DCP Midstream Partners. And really excited to have the platform here today to talk to you about the transformation that the DCP enterprise has undergone in the last three years, and a transformation that translates to long-term sustainable value for investors.

And before I jump in, there we go -- let me -- please take a look at the Safe Harbor statement here on slide 2. Mobile is squared away if I make any forward-looking statements. So, I'll start with a little housekeeping around naming conventions and our ownership structure.

When I talk about the DCP enterprise, I'm referring to the combination of DCP Midstream, the private joint venture that's owned by Philip 66 and Spectra Energy, and the publicly traded MLP, DCP Midstream Partners, which I'll call DPM. And as I assume most of you know, DCP Midstream owns the general partner of DPM. And DPM is a sponsored MLP with an enterprise value of about $9 billion right now. And together, the DCP enterprise as a whole is a $15 billion to $20 billion company with the support of two $40 billion-plus companies.

And as I talk about our growth plans in the first part of this presentation, I'm going to talk with you about the DCP enterprise as a whole. And then later on, I'll transfer and start talking more about DPM. And as Paul mentioned, both DCP Midstream and DPM in their own right were very big companies, solid investment-grade ratings. And together, as an enterprise, we execute on one strategy, and a strategy that has been very successful. DCP enterprise is the largest natural gas processor, the largest producer of NGLs in the United States. And we continue to grow the asset base that we have in the Company.

So let's take a closer look at this. Since 2010, DCP has grown about 60% to an asset base of 1.3 billion -- or $13 billion. And DPM has more than doubled to $5.4 billion. Volumes have grown significantly, with our NGL production up approximately 20% for the DCP enterprise and a whopping 310% for DPM. And this strong enterprise growth comes from all the basins that we are playing in -- the Eagle Ford, the DJ, the Permian, the Midcontinent, the SCOOP area.

And DPM has also had some very strong returns over this period, with total shareholder returns of about 65%, including a 22% increase in distribution since 2010. And we've had 14 consecutive quarterly distribution increases. And that really is what we're focusing on -- long-term sustainable growth. And as you can see, lastly, DCP Midstream is a strong GP sponsor. We're the largest unitholder. We own approximately 23% of DPM. So in the end, all of our interests are aligned.

Our story is really founded on the DCP enterprise being a premier operator of midstream assets, having a terrific footprint, and executing on the very disciplined growth strategy. And we believe this is a business where size and scale really matters. And with our leadership position, we have it in spades. DCP Midstream is integral to our country's energy needs, holding a one, one and three position in the midstream industry in North America. We're the number one natural gas processor. We are the number one natural gas liquids producer, and we are the third largest operator of NGL pipelines in the United States.

And to put that size into perspective, we gather or process about 12% of the nation's gas supply. That's pretty, pretty significant. And in its own right, if you look at DPM by itself, DPM would rank well within the top 10 in our industry. And that really shows how much we've grown DPM over the past years.

So if you take a look at our map, the gold assets are DPM-owned, and the assets shown in gray are owned by DCP Midstream, the private company. And those assets represent about 60% of the overall DCP enterprise. So you can see that the size of the assets still residing at DCP Midstream is very, very significant. And in many of the basins that we are playing -- in most of them, actually -- we are the largest G&P company, and it's our plan to continue to make -- to grow that leadership position. We have an enviable industry-leading and geographic diverse position, which enables a continued very strong pipeline of growth opportunities, and the potential around our footprint is really tremendous.

So let's talk about the progress that we've achieved -- have achieved over the past few years, and how we stand versus the vision that we laid out looking to 2016. In 2010, we laid out our five-year aspirational goals. And as we enter here -- as we entered here in 2014, we were about 80% of the way there. Simply stated, we are a major player in the NGL value chain. We have transformed the DCP enterprise from a top-tier gathering and processing company to a top-ranked fully-integrated midstream leader, where we have built out our downstream logistics business, and connected all of our assets and customers to the major market hubs.

Sand Hills, Southern Hills, Front Range, Texas Express are all a reality; they're all in service, with more laterals and more planned connections to come on those pipelines. And we are continuing to integrate our processing assets to build systems that give us a competitive advantage and greater reliability. And I feel very comfortable that we have the playbook to achieve the rest of our goals and much more by 2016.

As I mentioned earlier, since 2010, the DCP enterprise has been on a journey of strong self-funded growth, growing about 60% over the last four years. So how do we do that? We use a phrase growth-for-growth to describe the synergistic relationship between DCP Midstream and DPM. And since DCP Midstream is self-funded, we are raising capital through dropping down assets into DPM. And then in return, DPM will fund those drops by issuing equity and debt, and delivering the proceeds for those dropdowns back to DCP Midstream, growth-for-growth.

And as we grow the enterprise as a whole, we grow DPM. It's like writing a tandem bicycle. With the projects that the DCP enterprise has under construction and on the drawing boards over the next three years, we expect to execute on about $4 billion to $6 billion of capital expansions. And we're also accelerating our drops into DPM in the potential range of $3 billion to $5 billion. And with the $1.15 billion dropdown to be completed here in the first quarter, we are well on our way to DPM's $1.5 billion 2014 drop-down target.

Since we began our growth program in 2011, we've spent upwards of $4 billion. And on the top side, on the top half of this slide, you see a lot of checkmarks and a lot of the deals that we already have done. So what differentiates the DCP enterprise from many of our competitors is our continued focus on project execution and capital efficiency. For example, both Sand Hills and Southern Hills -- two very large, very complex projects -- were both completed ahead of schedule and below budget. And we are very effective at bringing incremental gas processing capacity online. And we're filling our plants faster than we originally planned.

And we're really proud of our competencies in this area. And then we do it with the best safety records in our industry. So picture the magnitude of this. For the DCP enterprise as a whole, we put into service approximately 1 Bcf of new capacity in the past two years alone. That capacity is already 80% utilized. And that capacity by itself dwarves the total size of many companies in our space -- and that's just in the last 24 months for the DCP enterprise. If you then take a look at DPM, in just the past year, we put $560 million a day of new processing capacity into service, which is about 75% utilized.

So those are perfect examples of capital efficiency and doing the right capital allocation. So how do we do that? Well, first, we're in the primary areas of the key liquid rich basins. We've integrated systems to keep the gas flowing and route gas around our systems. We don't have a build-it-and-they-will-come philosophy and strategy. Our organic projects are backed by long-term contracts. They are underpinned by significant acreage dedication or throughput minimums. And finally, we work very closely with our customers to make sure we are aligned, so that we create a win-win relationship. And we accomplish all of this with having an industry-leading safety position and a strong, strong focus on operational excellence.

So, what I wanted to do here is give you a little bit of insight into three businesses that are still sitting at the private entity at DCP Midstream, so you can appreciate the size and the scale that the GP provides through its sponsorship of DPM. So starting here on slide 8 with the Midcontinent, this is an area that's seeing continued growth from places like the Mississippi Lime, the Granite Wash, and the SCOOP area. We're the largest gatherer and processor in this area -- very expansive footprint. Approximately 30,000 miles of pipeline; 13 gas processing plants with over 2 Bcf a day of processing capacity. And we produce in excess of 120,000 barrels of NGLs per day. And we've invested over $2 billion in plants and pipelines in this area over the last couple of years.

We built the Southern Hills pipeline, which is now owned by DCP -- or by DPM, and provides NGL takeaway from the Midcontinent to Mont Belvieu. We've expanded our gathering and compression to bring home additional volumes and increase capacity utilization. And additionally, we are well underway with our national helium plant upgrade serving the Mississippi Lime and Granite Wash areas. And we think that upgrade is going to be completed in the third quarter of this year. So overall, our integrated system in the Midcontinent offers a tremendous amount of flexibility for us, and really allows us to capture the continued growth that we are seeing in places like the SCOOP area, the Granite Wash and the Mississippi Lime.

So, let's move over to the Permian basin. We're the largest gatherer and processor in this area as well. Approximately 18,000 miles of pipeline. We've got two fractionators, 17 gas processing plants, over 1.3 Bcf of processing capacity per day, and we produce in excess of 135,000 barrels of NGLs every single day. And our strategy in the Permian is to keep up with our customers' growth. And we've significantly expanded our Permian footprint by investing over $1.7 billion in this region since 2011.

And once our new Zia II plant is complete, we have added approximately $400 million a day of additional processing capacity to this area. And that $400 million a day includes the new Rawhide plant that we put online in 2013. That's a $75 million a day plant. We have added $125 million a day of processing capacity via plant expansions and restarts. And then if you add the new Zia II plant to this in Southeast, New Mexico -- and we expect this plant to go into service in the first half of 2015 -- that puts us well over $2 billion of new investments and almost half a Bcf of additional processing capacities.

And all of those assets are connected to the new Sand Hills NGL pipeline for NGL takeaway. And to remind everybody, with the completion of the drop-down to DPM of our one-third interest in Sand Hills pipeline at the end of March, DPM -- that was DPM's first entry into the Permian. So, very exciting for the partnership.

Now, for the DJ Basin. And that's another area where we are the number one gatherer and processor. And this is a region that is the object of very significant capital investment by major producers, including a Noble and an Anadarko. And to put kind of in perspective the amount of money that is being put into this region, Noble Energy is targeting $2 billion of capital this year alone. It's a perfect example of how our fully integrated services are working in this area. We've got the fracs. We've got the processing plants, and we've got the NGL pipelines.

As I said, we hold the number one position in the DJ Basin as well. We have approximately 3400 miles of pipeline, two fractionators. We have eight gas processing plants with approximately 600 million a day of capacity, and another 200 million a day is on its way with the plant that we have under construction. We produce about 45,000 or a little bit more barrels of NGLs every day. And we enjoy a really good relationship with our producer customers. We partner very closely to align our interests, timing of the infrastructure that we are building.

So, if you take a look back at the last two years, we've added 450 million of extra processing capacity in this area alone. And with the startup of Front Range and Texas Express, we have a pathway to the premier Mont Belvieu market for the increasing volume of DJ product. Like the Midcontinent, like the Permian, in the DJ, we have system flexibility across the enterprise's eighth plant to fully optimize capacity. And when Lucerne 2 comes into service in 2015, DPM will own about half of the 800 million a day capacity in the DJ. So that's a very, very significant foothold.

I just provided an overview of the DCP enterprise. I'm now going to switch gears on you; going to talk specifically about DPM. So, this slide summarized DPM's 2014 capital plan, our DCF and our distribution forecast. And as you can see, between 2012 and 2014, DPM will have executed on approximately $3.6 million of drop-downs, and about $1.4 billion of organic growth projects. And looking forward, from 2014 through 2016, we expect between $3 billion and $5 billion of drop-downs through DPM.

We started the year pretty fast, completing a $1.15 billion drop-down in the first quarter. And we are well on our way to our 2014 target of $1.5 billion. Also during the first quarter, DPM's Joliet plant, the O'Connor plant expansion, and the Front Range Pipeline were all placed into service. Add to this, the Keathley Canyon product, plus the Lucerne 2 plant, and our other organic bolt-on projects that are coming online this year and next year, and we're well on track to meet our 2014 organic growth forecast of about $500 million.

And as we look back, you can clearly see that the growth and the drop-downs have materialized. Operations are performing very well, and we continue to execute as promised. And with accelerated drop-downs. we continue to create additional growth opportunities for the partnership. And those organic growth opportunities provide great returns to the partnership. They all tend to be in the 5x to 7x multiple range, and they support our goal of providing long-term sustainable value to our unitholders.

So, let me give you a brief update on our three business segments. Starting with DPM's largest business segment, Natural Gas Services -- again, in the past year, we've placed three DPM plants into service, with two of those in the last six months. And those plants, each of them are currently averaging between 70% to 80% capacity utilization. So, very quickly we are filling these plants up very quickly. With the latest drop-downs, DPM now owns about 100% of the Eagle Ford. And that really is the primary driver of the strong results and the growth of this business segment.

This system continues to grow. Volumes are steadily climbing in the Eagle Ford. We are seeing volumes up approximately 22% over the first quarter of last year, and we're at about 85% capacity utilization of the overall Eagle Ford system that we have, which is about 1.2 Bcf of processing capacity. Our 200 million a day Goliad Plant, which we just placed into service in February, is already running over 130 million a day, and it's climbing.

So let's turn to the DJ Basin. Our 110 million a day O'Connor plant in the DJ Basin also saw volumes ramp up much faster than we originally planned. And we just brought online the additional 50 million a day expansion for the plant. We still have more growth coming online. The Keathley Canyon project is expected to become in service in the fourth quarter of this year, and our 200 million a day Lucerne 2 plant in the DJ is expected to go in service in the middle of 2015. Together with that, other bolt-on organic projects that we are seeing is expanding gathering and processing opportunities, fractionation opportunities in Wyoming and East Texas, and discovery in North Louisiana. So, all in all, very, very significant growth in the Natural Gas Services segment.

Moving to NGL Logistics. During the first quarter, we completed the long-awaited drop-downs of the Sand and Southern Hills pipeline. And since the third quarter of last year, both Texas Express and Front Range were also placed in service with the associated ship-or-pay contracts now active. And we are seeing several organic bolt-on opportunities around these assets to connect plants, and expand NGL takeaway and storage capacity. For example, we've already identified over $200 million on 100% basis of opportunities to connect DCP Midstream and other third-party plants to Sand Hills pipeline. And as we look ahead, we expect significant growth in this segment from these various bolt-on opportunities and from our NGL pipelines, as volumes and cash flows continue to ramp up.

Slide 15 highlights our Wholesale Propane business. We have a favorable market position as one of the largest wholesale propane suppliers in the Northeast, with strategically-located terminals, numerous supply contracts. We also have our butane export expansion at our Chesapeake facility in Virginia, where we completed first phase of this project to debottleneck product distribution into and out of the facility. And we continue to work on finalizing an agreement with the third party to begin exporting butane at our Chesapeake terminal later this year.

So now for a quick overview of the historical results for each of these segments, our Natural Gas Services segment is by far our largest business segment; comprises about 75% of the 2013 adjusted segment EBITDA. And this segment continues to experience substantial growth. If you take a look at EBITDA over the last couple of years, we have a compounded annual growth rate of 30% since 2010. And just as a side note, about half of this business segment's earnings are fee-based.

Our NGL Logistics segment is our second-largest segment; also has seen very significant growth, with EBITDA growing at a compounded annual growth rate of 65% since 2010. And with a primarily fee-based cash flow stream, this segment will continue to grow significantly in 2014 and beyond, with Front Range, Texas Express now in service, and the drop-downs of Sand and Southern Hills.

And then, lastly, our smallest segment, Wholesale Propane, which really is a seasonal business, where the majority of our earnings are during the winter heating season, and the fourth and first quarters.

Slide 17 outlines DPM's financial position at the end of March 2014 estimated commodities sensitivities. We have a very strong capital structure. We have a very competitive cost of capital. And we continue to have strong investment-grade ratings across the board, with targeted leverage between three and four times, and distribution coverage between 1.1 and 1.2 times. We also continue to maintain very strong liquidity. In May, we upsized our credit facility from $1 billion to $1.25 billion. We extended our maturity to May 2019, and we have over $1 billion of capacity available.

We also executed the largest equity and debt offerings in DPM's history in the first quarter. We raised about $1.4 billion to fund our ongoing drop-downs and organic projects. And then on the bottom right of this slide, you see our 2014 sensitivities, which are inclusive of our completed drop-down, and they really haven't changed since last quarter.

And lastly, DPM has a multiyear portfolio hedging strategy, with 95% of our 2014 margins either fee-based or hatched, making DPM's cash flow substantially insulated from commodity price movements.

So, in summary, let me tell you why I believe DPM is a compelling investment. DCP enterprise has a diversified portfolio of assets. We have a leading industry footprint across the country's liquid rich basins. We are where a drillbit aspires to be. And that footprint provides us with a long lead of announced growth, and a clear line of sight to new projects within the enterprise. You can see the impressive growth occurring at DPM, and how we are successfully executing on our growth-for-growth strategy. And we checked a lot of boxes already in the first quarter of this year.

We expect to be within our 2014 DCF target range, having already reported, in the first quarter of 2014, adjusted EBITDA of $138 million, up 38% from the first quarter of last year, and DCF of $122 million, up 58%. And we completed the $1.15 billion of drop-down. We're 75% of our way there to our 2014 forecast. We're also on track to deploy $500 million of high return organic growth projects. We placed into service our Goliad Plant, our 50 million a day O'Connor plant expansion, and the Front Range pipeline. And for those of you who are keeping count, we had a our 14th consecutive quarterly distribution increase, now standing at $2.98 per unit annualized. And that's our focus -- long-term sustainable growth for our unitholders.

With that, I'd like to thank you for your interest, and I'll be glad to take some questions.

Good? Well, I appreciate your time. Thank you very much.