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DPM - Q4 2014 DCP Midstream Partners LP Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2015 / 3:00PM GMT

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PRESENTATION

Operator

Welcome to the DCP Midstream Partners' fourth-quarter 2014 earnings call. My name is John and I will be your operator for today's call. (Operator Instructions). Please note that the conference is being recorded.

And I will now turn the call over to Andrea Attel.

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

Thank you, John. Good morning, everyone, and welcome to the DCP Midstream Partners', or DPM's, fourth quarter 2014 earnings call. Our speakers today are Wouter van Kempen, Chairman and CEO of both DCP Midstream and the Partnership; Bill Waldheim, President; and Sean O'Brien, CFO of both companies.

As always, we'd like to thank you for your interest in our Company. This call is being webcast, and the slides used for today's call are available on our website at dcppartners.com.

During our call today we'll 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 could materially impact our actual results. For a complete listing of these and other risk factors, please refer to the Partnership's most recently filed 10-K. We will also use various non-GAAP measures, which are reconciled to the nearest GAAP measure in the schedules in the appendix section of the earnings slides.

With that, I will turn the call over to Wouter.

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

Thanks, Andrea. Good morning, everyone. I'm really pleased to share some thoughts on our fourth-quarter and year-end results, results that emphasize the strength of DPM. The Partnership had a record 2014, which positions us well as we enter into 2015.

So let me quickly cover the highlights. During 2014, we checked the box on all the promises we made, dropping assets into DPM, putting new assets online, and ramping them up; all while continuing to hold the number-one ranking in safety among the 10 largest midstream companies at the Gas Processors Association. In fact, in 2014 we experienced our best safety record in our history, and that is something we're very proud of.

The growth from recent dropdowns in organic projects placed into service has contributed to the Partnership's best fourth-quarter and full-year results ever recorded. Fourth-quarter adjusted EBITDA was up 26% to $139 million, and DCF was up 42% to $112 million. And to note, these results were lower due to a non-cash Lower of Cost or Market inventory adjustment of $19 million.

For the full-year 2014, EBITDA came in at $536 million, and DCF of $471 million exceeded our 2014 DCF target range of $435 million to $450 million. These great results were driven primarily by our Eagle Ford and DJ Basin assets in our gas services segment, and the continued strong fee-based growth associated with the ramp of our NGL pipelines. And with our key focus on long-term, sustainable growth, I'm proud to share that we have declared our 17th consecutive quarterly distribution increase, now standing at $3.12 per unit annualized.

Before I hand it over to Bill and Sean, I want to highlight a few other things we will be talking, or not talking about, on today's call. I shared earlier this month at Spectra Energy's Analyst Day about how the DCP enterprise is managing through this industry downturn. We also indicated that DCP's owners, Phillips 66 and Spectra Energy, are evaluating various structural options around the DCP enterprise to resolve near-term challenges and set us up to be a stronger company in the future. And we will provide more details as we finalize our path forward.

However, as you can appreciate, due to the real-time discussion still taking place, we will not be providing any comments on today's call. What we will be talking about is the continued strength of the Partnership, our 2015 guidance, and a forward view of DPM once the majority of the hedges with DCP Midstream roll off in 2016. 2015 will be a challenging year for the industry. However, DPM is very well positioned, with margins approximately 90% fee-based or hedged; and with fee-based margins continuing to grow from projects that are ramping up, like our Keathley Canyon and Lucerne 2 plant.

In response to the industry downturn, we've shifted our focus to being prudent in the near-term, with a strategic focus on capital efficiency, operational reliability, contract reformation, and expense management. And we've talked a lot about our goals of sustainable distribution growth to our unitholders, and since DPM's IPO in 2005 we have increased Partnership distributions in 27 quarters, and held distribution steady during the 2008 and 2009 financial crisis. And despite the ratings actions announced on Monday, which Sean will discuss in more detail later on, our leverage and coverage metrics are the strongest they've ever been, and they continue to trend positively.

All of this translate into value to our owners and our unitholders. DPM is a strong MLP with a proven track record, and we are well positioned to capitalize on industry recovery and capturing growth opportunities around our footprint.

Slide 5 shows our 2015 guidance and our track record of increasing adjusted EBITDA, DCF, and distributions. For starters, our 2015 distributable cash flow target range is between $545 million and $565 million, up approximately 20% from 2014. And adjusted EBITDA will be up about 25%, between $655 million and $685 million. We're also targeting up to $0.01 per quarter distribution increase in 2015, which equates to a growth rate of approximately 5.5% over 2014, keeping us well above our 1.0 coverage target.

However, as we navigate through this uncertain commodity environment, we will prudently manage our distribution growth with a focus on our long-term view. We will recommend distributions to our Board of Directors quarterly using the best information available at that time, with the goal of sustainable distributions. And we will balance this with our leverage and coverage metrics.

Our organic growth CapEx forecast is approximately $300 million during 2015, which includes primarily in-flight projects, and the Grand Parkway gathering project and Panola Pipeline expansion that we announced earlier this week. This forecast does not include any other potential new projects.

And as you can see, we have not provided a dropdown forecast. Although we do expect dropdowns to occur, we and our owners are evaluating various scenarios around [base of] drops, and we will provide additional clarity once we have determined our path forward.

Now I will turn it over to Bill to review our 2015 capital forecast and provide an operational update. Bill?

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

Thanks, Wouter, and thanks for everyone for listening in today. On slide 6 we show our 2015 capital outlook. Let me start by reiterating what Wouter just said. DPM has over $300 million of approved projects for 2015, all of which are predominantly fee-based in nature, as shown on the lower-right bar chart. Due to uncertainty around our producers' capital budgets, we plan to prudently manage our capital spend while watching their drilling programs, so that we do not get ahead of them. We'll remain flexible, preparing for future opportunities around our footprint, like securing new plant permits and ordering long lead time equipment so we can quickly ramp up, if and when needed.

As you can see, we have numerous projects that fit into the pending category, depending on future activity, such as additional plants and the Eagle Ford and DJ Basin areas.

So let me highlight two new predominantly fee-based projects included in our 2015 forecast. First, we just approved the Grand Parkway gathering project in the DJ Basin, a $55 million, 100% fee-based, low-pressure gathering system with fixed payments from our producers. This project will lower fuel pressures and increase volumes to improve overall reliability of the system.

And earlier this week, DPM -- along with our new joint venture partners Enterprise, Anadarko, and MarkWest -- announced the formation of the Panola NGL Pipeline joint venture, where Enterprise operates the pipeline and retains a 55% ownership interest, and DPM, Anadarko, and MarkWest each own a 15% interest.

The Panola NGL Pipeline extends 181 miles from Carthage to Mont Belvieu, Texas. The joint venture will install an additional 60 miles of pipeline, and increase capacity 50,000 barrels per day.

Earnings from the joint venture and incremental capacity are expected to commence in the first quarter of 2016. This fee-based project supports continued production growth in East Texas, and benefits DPM's extensive gathering and processing infrastructure around our East Texas system.

Our in-flight projects include our Lucerne 2 plant, a fee-based asset with minimum throughput commitments and a Q2 in-service date. We expect the Lucerne 2 plant to ramp up quickly from pent-up demand in the Wattenberg Field.

Our two in-flight Sand Hills bolt-on projects, the Lea County and Red Bluff Lake laterals, are also expected to go into service in the second quarter. These laterals will open up needed pipeline capacity in the Delaware Basin and Southeast New Mexico, where DCP Midstream is completing its Zia II plant. We are also expanding Sand Hills' capacity by working the first of several new pump stations to add 40,000 barrels per day of takeaway capacity from the Permian area.

Finally, our Marysville liquids handling project, also a Q2 in-service date, will improve our ability to receive and deliver NGL products at the facility via truck and rail.

I'm really excited about all these organic growth projects, which are all primarily fee-based in nature, and will provide earnings growth to the Partnership.

On slide 7, I will quickly provide an overview of how we executed on our 2014 plan. Overall, we completed $1.7 billion of dropdowns and organic projects during 2014. First, we completed a $1.15 billion dropdown which has provided strong fee-based earnings growth to the Partnership. Second, we completed approximately $500 million of organic growth projects, having placed into service, on time and on budget, our O'Connor plant expansion and Front Range NGL pipeline in the DJ Basin, and our Chesapeake butane export project in our wholesale propane business.

And I'm excited to say, earlier this month, Williams announced that the Keathley Canyon connector project at our Discovery joint venture is in service. This deepwater gathering system is capable of gathering more than 400 million cubic feet a day of gas, and is 90% fee-based, with minimum throughput commitments. We expect strong returns from our Keathley project, with about $60 million to $70 million of incremental DCF on an annualized basis.

Our Eagle Ford system and O'Connor plant are primary drivers of the strong results and growth of our natural gas services segment. The Eagle Ford continues to see strong production due to its economic cost of drilling and location relative to the Mont Belvieu market. DPM is in the core area of the Eagle Ford. So, all told, we are very pleased with the Eagle Ford's current and future projected earnings growth, even in the current environment.

We are also experiencing growth from our O'Connor plant, which is running virtually full. And our fee-based Sand and Southern Hills pipelines in our NGL logistics segment are ramping up faster than expected. In the fourth quarter, Sand Hills averaged approximately 165,000 barrels per day, and is currently running close to 200,000 barrels per day. This pipeline continues to ramp up with several new facilities beginning to deliver NGLs into the system. And as mentioned, expansion is underway to increase pipeline capacity.

So, all told, DPM's business segments are doing very well as we head into 2015. Our focus on capital efficiency will continue as we rapidly fill newly constructed capacity across our system.

With that, I will turn it over to Sean to review our commodity sensitivities and results.

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

Thanks, Bill. Good morning, and thanks to everyone for joining us today. On slide 8, I want to start right out of the gates with a focus on our 2015 sensitivities, and our fee-based and hedged margin portfolio as we look into 2016 and 2017.

As DPM has grown, we've been very successful in adding fee-based assets and contracts to our portfolio. This is demonstrated by our track record, and highlights our commitment to driving growing, sustainable cash flow. With our growing fee-based assets, our 2015 fee-based margin is forecasted to increase to 60%, up 5% from 2014. And the remaining 40% margin is 75% hedged, resulting in our 2015 margin being 90% fee-based or hedged.

In the upper right-hand side of this slide, assuming a price deck of (technical difficulty) NGLs, $3.60 gas, and $70 crude in 2016 and 2017, and with growth from our predominantly fee-based investments, this graph demonstrates how DPM's fee-based revenue stream will grow up to an estimated 70% by 2017.

This graph also assumes direct commodity hedges from DCP Midstream through the first quarter of 2016. So without any additional hedges, DPM's margins are between 70% and 75% fee and hedged. And as you can clearly see, the growth in fee-based margins earnings minimizes the direct effect of unhedged margins.

So as we look out over the next few years, we are confident that we will continue to grow our fee-based cash flows and proactively manage our commodity sensitivities. And quickly touching on our sensitivities in 2015, we are neutral to changes in crude prices. Our sensitivity to NGL prices is about a $750,000 impact, for a $0.01 per gallon change. And our sensitivity to natural gas prices is about $250,000, for a $0.10 per MMBtu change.

Now on slides 9 and 10, I will quickly highlight our fourth-quarter and full-year 2014 results. 2014 was another record year. We just reported our strongest fourth-quarter and full-year results ever, driven by our solid execution on our growth projects. Our strong momentum continues into 2015, drawing from the great growth from dropdowns and the organic opportunities they have created.

In the fourth quarter, adjusted EBITDA was up $29 million or 26% to $139 million, and we generated $112 million of DCF, up 42% from the fourth quarter of 2013.

And as Wouter mentioned earlier, these fourth-quarter results were lower due to a $19 million non-cash inventory LCM adjustment in our natural gas services and wholesale propane segments that we expect to substantially recover in the first half of the year. For the full year 2014, adjusted

EBITDA was $536 million and we generated DCF of $471 million. These strong results in fourth-quarter and full-year 2014 were driven largely by growth in our natural gas services and NGL logistics segments.

So now on slide 10, I will highlight the key earnings drivers from the fourth quarter for each of our business segments. In our largest business segment, natural gas services, excluding effects of [pooling], adjusted EBITDA increased $27 million, which included a $10 million LCM adjustment in the fourth quarter. Results in this segment were driven primarily by growth from our Eagle Ford system and the operation of our fee-based O'Connor plant in the DJ Basin, with natural gas throughput volumes up 15% and NGL production up 25% compared to the fourth quarter of last year, partially offset by declines on lower-margin drier-gas areas.

Looking at the lower left graph on this slide, our NGL logistics segment adjusted EBITDA was up at $20 million, almost double, to $39 million. This increase was driven primarily due to growth from dropdowns of the Sand and Southern Hills pipelines and the ramp up of Front Range and Texas Express pipelines. Our NGL throughput volumes were up an impressive 179% from just a year ago. And as a quick reminder, all of these NGL investments are accounted for using equity method accounting, which drives higher DCF rather than EBITDA.

And, finally, in our wholesale propane segment, we reported a loss of $2 million, which included an LCM adjustment of $9 million in the fourth quarter. We expect to substantially recover the LCM adjustment through propane sales in the first and second quarters of 2015. Excluding the non-cash LCM adjustment, segment EBITDA was slightly lower than the fourth quarter of 2013, due to reduced unit margins and propane sales volumes, partially offset by lower operating costs.

Now moving to slide 11, I will quickly recap our financial position at the end of the year. Despite the uncertain environment, we continue to maintain a strong capital structure and balance sheet. DPM's average cost of debt was about 3.8%, and we had about $1.25 billion of liquidity available under our credit facility.

DPM's debt to EBITDA at the end of 2014 was 3.2 times, on the lower end of our target range of 3 to 4 times. And our 2014 coverage ratio was 1.12 times, well within the 1-1 to 1-2 target range. And let me remind you that both of these metrics are well within the targets for an investment grade rated company.

And so despite the recent downgrade by one of our three rating agencies, our leverage and coverage metrics are the strongest they've been, and continue to trend positively. We value investment grade rating, and we firmly believe that DPM will continue to have solid access to capital to fund our growth.

So, DPM's balance sheet provides that DCP enterprise a solid platform to support growth. And the partnership is well positioned moving into 2015, and we will continue to deliver solid DCF growth tied to our growing fee-based revenue stream, altogether supporting sustainable total shareholder returns.

And with that, I will hand it back over to Wouter to wrap things up.

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

Thanks, Sean. So, as you heard from Sean and Bill, DPM just came off its best fourth-quarter and full-year results ever. As you know, DPM's an integral contributor to the overall DCP enterprise, and while we have some headwinds at DCP, we are very confident in the long-term fundamentals for the industry and for the DCP enterprise.

Remember: this is a must run business, with over 75% of the gas produced in the US requiring some level of treatment or conditioning. And the DCP enterprise is the largest gas processor in the country, with about 12% of the nation's gas supply coming through our plants.

So back to the headlines for DPM. 2014 was a fantastic year. The Partnership reported record Q4 and 2014 DCF and adjusted EBITDA. We grew the size and scale of the Partnership, and strengthened its position in key basins through dropdowns and organic projects, with the Partnership's assets up 25% from last year. And we see continued growth in 2015.

We have a strong, diversified portfolio of assets and margins, with a growing revenue stream. And when you look at DPM's track record and premier positions in key basins, you can see that we have a proven strategy of continued, sustainable returns.

And as a reminder, the DCP enterprise has a long history, approximately 90 years, of prudently managing through low commodity environments. We're well underway on tightening our belts with a strategic focus on prudently managing the DCP enterprise to be an even fitter and stronger company.

We are controlling what we can control: costs, reforming contracts, and investing in our existing infrastructure to keep our assets running reliability. We will operate safely and responsibly, with a focus on capital efficiency, while maintaining optionality for the future with permits and long lead time equipment.

And we will maintain a flexible capital program, and work closely with producers to ensure that we do not get ahead of their needs. So, all in all, we feel that DPM is very well positioned in the current business environment of 2015 and beyond.

With that, I thank you for your interest in DPM.

Bill, Sean, and I are now available to take your questions.

John, please open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Harry Mateer, Barclays.

Harry Mateer - *Barclays Capital - Analyst*

I guess the first question, as of today -- as you mentioned, you still have investment grade ratings at Moody's and Fitch, but investment-grade leverage metrics are not always the same thing as ratings. So I would like to know where that ratings commitment stands today, and what time frame you think is required to get back to investment-grade at S&P and/or to stabilize the ratings at Moody's and Fitch? And do you have a game plan in place to restore the ratings at LLC, as well is the DPM level? Can we expect near-term actions?

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

Harry, at the end of the day -- this is Sean. As I alluded to, we value the investment grade rating. As you concluded, we have it at Moody's; we have it at Fitch. S&P has a different methodology where they couple MLP, especially if the GP has a lot of assets at the top; so the two go together, just to give some clarity around that.

In terms of our commitment, I think you've got to look at what we've done at DPM in terms of over the last few years of growing the entity, adding more fee-based revenue stream substantially, adding diversity to our portfolio. So I think we're doing everything we can, we believe, to hold that investment grade rating. And we will continue to do those things in the future in support of that.

I'm not going to get into a lot of detail around LLC on the call. But as Wouter mentioned a couple times, and if you look at what we said in New York a few weeks ago, we're doing all the things we can do at the enterprise. And we've been through this multiple times over the years, the cycles, and we're pulling all the levers we can pull to ensure that we are creating cash flow and being very prudent through this time period.

Harry Mateer - *Barclays Capital - Analyst*

Okay. And can you just give us a sense for what sort of debt funding needs DPM is going to have in 2015?

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

Yes, the reality is -- we don't foreshadow any particular capital markets activity or debt funding. But as Wouter and I think Bill alluded to, we tempered our growth programs just to the projects that are announced and in-flight. And we'll wait and see. We'll be prudent throughout the year to see what happens with our producers, to see what other organic opportunities show up. But I won't give any line of sight to any capital markets activity that we may or may not do.

Harry Mateer - *Barclays Capital - Analyst*

Okay. Thanks, Sean.

Operator

Selman Akyol, Stifel.

Selman Akyol - *Stifel Nicolaus - Analyst*

I just wanted to go back to the Spectra call, and there you outlined potentially closing or consolidating less efficient assets. Can we presume that's mainly at the LLC, as opposed to at Midstream?

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

Yes, Selman. Good morning, this is Wouter. When we were talking about -- or sitting at Spectra, we were talking predominantly around activity on LLC. If you take a look at the asset portfolio right now, a lot of the smaller assets and some of the smaller plans are sitting in LLC. So if you're thinking about consolidating, you're looking at smaller, inefficient, lower-recovery type of plants, and those are predominantly sitting in LLC.

Selman Akyol - *Stifel Nicolaus - Analyst*

Got you. And then my next question -- you also, at that time, mentioned sending out letters to producers, and trying to reduce the volatility of the margins. Any idea when that program will be completed and you'll have results, when you can really be talking about that?

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

It's interesting. If you recall when I made that comment in New York, I said, for example. And so what we're doing is that was a small piece of the various things that we're doing. So we're looking at contract reformation overall.

And I gave the example of some evergreen contracts where there's T&F that may be below-market and we're taking that up. I think that program is going very, very well. But I was talking much more broader at that time. I was talking about overall kind of operational reliability. I was talking about what assets should be in the portfolio, should not be in the portfolio; should we move certain assets from a POP base, more to a fee base, and things like that.

So it was a much broader type of discussion, where I think most of you ended up picking up on my example. But the example is one piece of what is going on in a much broader program that we are looking at to making changes to the Company overall.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right. I appreciate that. And then my last question, in your opening comments you talked about -- or it sounds like, restructuring at the LLC, and you talked about when those -- do you have any idea when those discussions will be finalized and we could look for an update on that?

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

I think we're probably somewhere in the first half of this year, is probably the right kind of time frame to think about.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right. Think you very much.

Operator

Jerren Holder, Goldman Sachs.

Jerren Holder - *Goldman Sachs - Analyst*

I was wondering if you guys could share maybe what the returns profile looks like for the Grand Parkway project, recognizing that it's 100% fee-based with fixed payments.

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

Yes, this is Bill Waldheim, Jerren. The Grand Parkway is a really nice project in the DJ, which is going to really help the producers lower their field pressures overall, which ultimately will raise production in this area and support the growth that we've been building at our O'Connor and Lucerne plant. So, overall, a real good project. It's organic in nature. And generally we would say organic projects fit into that 5X to 7X multiple type range. And I think you can probably -- this project probably fits into that profile.

Jerren Holder - *Goldman Sachs - Analyst*

And can you guys comment maybe further -- I guess some of the upstream guys have been talking about some of the issues through Midstream, and recognize the lower pressure -- I mean, this project directly addresses one. Any other potential projects like this that you guys could probably undertake that's out there being looked at?

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

Well, the Lucerne 2 project in the DJ is part of an overall program to upgrade not only our processing capabilities, but there's a lot of work going in the field behind the Lucerne 2 plant with compression and larger diameter pipelines. So there's a lot of work that's occurring in the DJ to support the producers in this area.

And again, the Grand Parkway was a perfect example of us as a midstream company and the E&P companies coming together, and all supporting one another to fund this type of a project. And again, we really are excited about it. It's fee-based in nature, and it will really help the producers with lower pressures now and into the future.

Jerren Holder - *Goldman Sachs - Analyst*

And lastly, the oxygen in the pipelines I know was mentioned before. Where are you guys as it relates to that?

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

Yes. You've heard that from the producers, several -- actually, probably four or five months ago. We've actually been working with the producers very, very closely and identifying where the oxygen was coming from, and remediating those areas. And I think we've done a very, very good job in coordination with the producers. It's really the producers that are responsible for delivering the quality product to our system. And, together, I think we've solved that problem. So it hasn't been an issue as of late.

Jerren Holder - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

John Edwards, Credit Suisse.

John Edwards - *Credit Suisse - Analyst*

In the past, you've always provided a longer-term outlook. You've given us the 2015 outlook. Do you have any comments you can share with us regarding the three-year outlook on distribution growth, and so on?

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

Yes, John, I think we -- there was a time a couple of years ago that we gave three-year outlooks. We have moved away from that. I think especially in today's environment, giving a three-year outlook is fairly difficult. And we obviously gave you 2015. And we feel very good about 2015, with new projects coming online. We gave you our distribution forecast, which is I think very solid. 2016, we gave you some insights into hedges and other things. But what we continue to do is working on adding fee-based growth to the overall portfolio.

We have always talked about that we are not a build it and they will come type of company. So we are very closely and in sync with our producers, making sure that we have high utilization rates in our plants.

What we're doing right now is making sure that we -- and I spoke about it in New York a couple of weeks ago -- we're making sure that we get long lead time equipment, that we have plant permits where available, so that if we see this thing turning and the producer activity starts to pick up again, we can respond very, very quickly.

So, given all of us looking at producer activity and trying to figure out when are things going to turn, what does 2016-2017 look like, we just did not think it was prudent to go out that long, at this time.

John Edwards - *Credit Suisse - Analyst*

Okay. Thank you for that. And then are you seeing changes in your return on invested capital for the projects that you've got underway? And then also if you could comment on the CapEx landscape, particularly in light of the fact that some of your competitors are scaling back. Are you seeing somewhat of a scaling back in terms of the opportunity cycling forward?

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

John, this is Sean. In terms of the returns, the Partnership -- most of the newer assets that we've laid out our fee-based, so we see the returns that we have coming in are very consistent with the expectations that we would have set initially. So we feel good about the returns, and that lends to our comfort level in 2015 and going into 2016.

In terms of the capital, at the end of the day, what we -- we have kind of reverted back. If you go a few years back, the Partnership typically only gave out capital guidance around projects that it had underway. And that's what we've done this year, to be prudent.

The $300 million-plus that we've given is, as Bill mentioned, the Lucerne 2 project. We like that project. It includes some fee-based expansions on the Sand Hills pipeline, those types of things, as well. We like those projects and they will come online.

I think in terms of following the producers, that's exactly the comment that Wouter just made. We're not going to get ahead of them. It's not that we don't have projects in the queue that we could, but we're going to wait and see in this environment, and see how the producers move. You could see us expand our capital at that moment. But we'll definitely wait and see what happens with the producer side of the equation.

So pretty conservative capital forecast, if I can say that, that we've given you for 2015.

John Edwards - *Credit Suisse - Analyst*

Okay, maybe if I could ask the question this way: in terms of, say, scaling back of opportunity set going forward, in terms of order of magnitude, would you say it's somewhere around 10%, 20%, or greater than 20%? How would you -- or no change at all -- how would you answer that?

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

John, this is Bill Waldheim. It's kind of interesting, as we look across our systems, we tend to be in the core areas of the Eagle Ford and the DJ Basin, and we've actually been watching our producers and their capital spend and their rig counts. And as we put our pencil to it right now, although the growth that we've been experiencing the last several years, which has been rather extensive and fast, has been slowing, but it is still growing. And so, we see the growth in these areas continuing, just at a slower pace.

So now again, that may change further, depending on their capital spend and their rig counts. But as we sit here today, and with the best information we have today, the growth is slowing, but it is still growing in our areas, where we are operating -- the Eagle Ford and the DJ.

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

So, lastly John -- this is Wouter. To add to this, our goal is to fill up all the capacity that we have as quickly as possible. Lucerne 2 coming online, we feel pretty good about that. Especially if you think about in combination with the Grand Parkway project, that is going to lower field pressures, give some opportunity for the producers to get more out of those vertical wells that have been pressured off. So that's going to be very, very efficient use of capital.

We are working on a permit for the next plant after that. We know where it's going to be. We know what it's going to look like. We're going to make sure that we have those permits in hand. The same for the Eagle Ford. The same for the Permian, where we're sitting on a number of permits for plants.

And we follow the producer. If the producer comes back, or we see signs from the producers that there's going to be nice growth, we will be right there with them hand-in-hand, and making sure that we bring the growth online for them.

John Edwards - *Credit Suisse - Analyst*

Okay. That's really helpful. Thank you very much.

Operator

Vivek Pal, Jefferies.

Vivek Pal - *Jefferies & Company - Analyst*

Just a follow-up from some of your prior comments. You mentioned that S&P is somewhat unique in the way they look at you guys. But Moody's and Fitch also has both of you at the same rating, right? So there's a decent probability that they may equalize it, too. Do you disagree?

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

Vivek, then obviously we were all at the same rating prior to Monday, across all three agencies. I think that's an accurate statement. What I was alluding to is S&P put some guidance out, I think it was the middle of last year, where they coupled and/or decoupled MLPs and HoldCos. And if there was nothing at the top, they tended to decouple. So you would be typically -- your MLP would be rated; your HoldCo would be rated a few notches, depending on their view, below that.

We are not viewed in that vein because we have significant assets at the top, so they've got the two of us coupled. And that was the point I was trying to make. It's not that -- I think the point you may be making is, do some of the other agencies give some benefit to DPM because of the relationship with LLC? That is definitely -- could be definitely the case. My only point is that over time, if you go back three or four years, that benefit, that halo, was very strong.

We have been trying to strengthen the MLP, and basically get the MLP to a stand-alone position, where it can be investment grade. And as we've pointed out on our call today, our credit metrics, our coverage ratio, our outlook in the future -- it's as strong as it's ever been at DPM. So we feel very comfortable about going forward. And we're only going to continue to, hopefully, emphasize that.

Vivek Pal - *Jefferies & Company - Analyst*

Right. No, I appreciate you clarifying that. My point was that both at the LLC and at the MLB level, the ratings at Moody's and Fitch are identical right now, too.

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

Right.

Vivek Pal - *Jefferies & Company - Analyst*

So they are also not differentiating. And for the points that you alluded, that 75% of your assets are still at the GP, and you have made some minimum guarantees to the assets that you've sold to the MLB, which kind of ties at together. Plus of how the owners have, in the past, said that they want to growth both the entities, and are not looking to go public or get a third party because it just complicates the situation. My sense is -- again, that doesn't mean I'm right -- that you really need some equity infusion.

No one is denying that you are moving in the right track. But given the complexity of the market right now, and the challenges in the NGL and the margins, which no one can deny, you really need an equity infusion. And that would mean, given that Spectra just had its earnings, and they don't want to do something on a credit neutral basis for them, that there is -- is there a possibility of ownership change? Because you were not 50-50 the beginning, right? So that is not set in stone.

Is there a possibility that that relationship changes? Because PSX has the ability to write a check for the betterment of the credit. Because here's the problem, and you may already know this, but I just want to say it as a well-wisher -- is that if you go -- if Moody's and Fitch act before the restructuring data is available by the middle of the year, then you lose the access to the IG Index. And we are already seeing that in the last 24 hours, as DPM is underperforming and market is getting nervous. So, time may not be on your side (multiple speakers).

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

This is Wouter speaking. And you are -- that was a lot of different questions at the same time, so I will just take one or two out of them. We cannot speak for Moody's and Fitch. When it comes to however they look at things, we are in contact with them, as you know, a lot. But I cannot speak about how they are going to look at both Midstream LLC or DPM. As Sean alluded, as we're looking at our coverage metrics, our leverage metrics have been better than they've ever been.

As to the second piece of your question, like you're really starting to talk about LLC when you talk about the potential things that you're talking about that may or may not be needed. As I mentioned earlier in the call, we're working very closely with Phillips, with Spectra, and taking a look at what we think is some very good potential solutions for the future. We're going to get back to everybody somewhere here in the first half of the year, and we feel comfortable that we'll end up with a good solution.

Vivek Pal - *Jefferies & Company - Analyst*

Thank you. What are the options that you have provided to the owners, in terms of what they can do?

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

No, I cannot -- as I told you earlier on, and we had the discussion in New York, as well -- I'm not going to talk about LLC here. So again, we're going to say keep everybody informed, and as soon as we have something we're going to make sure that all of you know about it, and give you all the details. So, appreciate it, Vivek.

Operator

And that was our last question.

I'll turn it back over to Wouter van Kempen for closing remarks.

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

Great. Well, thank you, John, and thanks everybody for your interest in the Partnership. If you have any follow-up questions over the coming days, please feel free to contact Andrea Attel, or anybody else on the team here. Have a great day. Thank you very much.

Operator

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