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DPM - Q1 2015 DCP Midstream Partners LP Earnings Call

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PRESENTATION

Operator

Welcome to the DCP Midstream Partners first-quarter 2015 earnings call. My name is Cynthia and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the call over to Andrea Attel. Ms. Attel, you may begin.

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

Thank you, Cynthia. Good morning, everyone, and welcome to the DCP Midstream Partners first-quarter 2015 earnings call. We would like to thank you for your interest in the partnership.

Our speakers today are Wouter van Kempen, Chairman and CEO of both DCP Midstream and the Partnership, and Sean O'Brien, CFO of both companies. This call is being webcast and the slides for today are available on our website at DCPPartners.com.

During our call today, we will 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 and 10-Q.

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 earning slides.

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

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

Thanks, Andrea, and good morning, everyone.

Before we jump into the results, I want to call out my appreciation to our friend and colleague Bill Waldheim, who just retired as President of DPM. Bill has led an esteemed 37-year career with DCP and our predecessor companies and he has played an integral role in executing on our strategy of providing long-term, sustainable value to our unitholders.

Knowing Bill, he is probably listening in, so I want to say thank you, Bill, thank you, [Cathy]. We will miss you and we wish you the very, very best.

On today's call, Sean and I will discuss how we performed during the first quarter, and towards the end, I will touch on our long-term strategy.

Before getting into the quarterly results, you have heard that DCP's owners, Phillips 66 and Spectra Energy, are evaluating various solutions for the DCP enterprise and we're making great progress on that. And while I appreciate that this is of great interest to all of you, real-time discussions are still taking place, so we will not be discussing this on today's call, but we will follow up with details when we finalize our long-term strategy.

Now onto the first quarter, another strong quarter with great results. Adjusted EBITDA was up 17% to $162 million and DCF was up 15% to $140 million. These results were driven primarily by the continued strong fee-based growth associated with the ramp-up of our NGL pipelines and strong results from our wholesale propane business.

And around our growth projects, the Keathley Canyon Connector was placed into service. In the DJ Basin, we are nearing completion on the Lucerne 2 plant and we began construction on the Grand Parkway gathering project, and the Panola Pipeline expansion project is underway in east Texas.

On slide 4, let's take a look at DPM's distribution history. During the first quarter, we held our distribution flat at $0.78, which is up 4.7% over the first quarter of 2014 and now stands at $3.12 annualized.

For those of you who have been tracking us from our beginnings, you will appreciate we have never cut DPM's distribution. Since DPM's IPO in 2005, we have increased Partnership distributions in about 75% of our quarters and held distribution steady for only one other period in our history, during the 2008-2009 financial crisis, and we are proud of that record of sustainable value.

In this current environment of low commodity prices and sharply declining rig counts, we expect to hold our distribution flat through the remainder of this year, with an expected distribution of $3.12 per unit for 2015, ensuring our eye is on making financial decisions in the near term that will be sustainable in the long term. Again, that has always been our focus, long-term, sustainable growth for our unitholders.

Now let's move onto the capital update on slide 5. We are on track to meet our organic growth forecast of approximately $300 million during 2015, which includes several predominantly fee-based projects that are all in flight. We also have numerous opportunities around our footprint that could materialize depending on producer activity, such as additional plants in the Eagle Ford and DJ Basin areas.

I have always said that we are not a build it and they will come type of company. What we do is we build and we fill, which is evidenced by our 85% utilization rate on our plants. We have a strong competitive advantage in our ability to quickly ramp up when needed.

We hold or are in the process of securing new plant permits and we have access to long lead time equipment, all of which can reduce the total plant build cycle by up to 18 months, providing us with optionality and speed when a recovery comes and giving us good line of sight to future growth opportunities.

Now for a quick update on our capital projects and let's step through them by segment, to begin with our gas services segment. The fee-based Keathley Canyon 440 million a day deepwater gathering system was placed into service in the first quarter. Keathley Canyon is supported by life of lease agreements with minimum throughput commitment and is already filling up very quickly.

In the DJ Basin, our Lucerne 2 plant is under construction and expected to be placed into service on time and on budget in the second quarter, and we expect volumes to ramp up quickly from pent-up demand in the Wattenberg Field. Also on the DJ, we began construction on our 100% fee-based Grand Parkway gathering project, which will lower field pressures and increase volumes on the system. This is a $55 million project, with a portion of the pipeline already in the ground.

Let's move over to our NGL logistics segment. Our two in-flight Sand Hills bolt-on projects, the Lea County and Red Bluff Lake laterals, are expected to go into service here in the second quarter. And these laterals will open up needed pipeline capacity in the Delaware Basin and in southeast New Mexico, where DCP Midstream is completing its Zia II Plant.

With this growth, we're in the process of expanding capacity on Sand Hills. Work is underway on additional pump stations, the first of which is targeted to come online in the middle of 2016 and will add an additional 40,000 barrels per day of takeaway capacity from the Permian area.

In east Texas, the Panola NGL pipeline expansion project, operated by Enterprise and owned 15% by DPM, began construction during the quarter and includes the installation of an additional 60 miles of pipe. This project will increase capacity by 50,000 barrels per day and has an expected in-service date in the first quarter of 2016.

And then, lastly, our Marysville liquids handling project in Michigan will improve our ability to receive and deliver NGL products at the facility via track and rail, and that one has an expected Q2 in-service date.

All of these are great fee-based growth projects.

Next, on slide 6, I will provide a quick operational update on our three segments. In the natural gas services segment, both gas volumes and NGL production are trending in a direction we like to see, both up compared to the first quarter of 2014. And that's primarily driven by Keathley Canyon going into service; the O'Connor plant in our DJ Basin system, which is running virtually full; and DPM's acquisition of an additional 20% ownership of the Eagle Ford system last year.

And the Eagle Ford is a great area for us. It continues to see very strong production, due to its economic cost of drilling and location relatively to the Mont Belvieu market.

In the first quarter, our Eagle Ford system volumes were down slightly from last quarter, due to some temporary operational challenges that have been resolved. We also had a third-party outage, but that's not expected to have a material impact to our forecast.

In the NGL logistics segment, we see volumes up 160,000 barrels per day from the first quarter of last year. Sand and Southern Hills coming into the Partnership is a big contributor to that increase. In the first quarter, Sand Hills averaged close to its initial 200,000 barrels per day capacity. I am very excited that the team has been able to increase the actual capacity of Sand Hills to about 240,000 barrels a day through asset optimization. And with the addition of a new pump station and other optimization efforts, we will further increase its capacity to an estimated 280,000 barrels per day by the middle of 2016.

And lastly, we also see volumes ramping up nicely on the Front Range pipeline, servicing our DJ production.

Finally, volumes in the wholesale propane segment were flat to last year, but as you recall, 2014 was one of the coldest winters ever, so seeing continued strong demand in 2015 is something that we are very pleased with and the team did a great job this winter working through some of the hardest operating conditions we have ever seen.

In summary, our business segments are doing very well, and with our strong footprint, with our assets located in the core areas of the key basins, we expect to continue to fill newly constructed capacity across our systems.

With that, I will turn it over to Sean to review the financials.

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

Thanks, Wouter. Good morning and thanks to everyone for joining us today. On slide 7, I will discuss our first-quarter 2015 results.

As you just heard from Wouter, DPM has delivered a great quarter, driven by strong growth from drop-downs and the solid execution on our growth opportunities. In the first quarter, our adjusted EBITDA was up $24 million or 17% to $162 million and we generated $140 million of DCF, up 15% from the first quarter of 2014.

In our largest business segment, natural gas services, adjusted EBITDA of $121 million was relatively flat to the first quarter of 2014. If you exclude a one-time $11 million favorable settlement from the first quarter of 2014, 2015 was up slightly, due to higher volumes and growth from our fee-based plans. This growth more than offset lower commodity prices, which were partially offset by hedges and lower unit margins on our storage assets, compared to last year.

In our NGL logistics segment, adjusted EBITDA was up $22 million, more than double, to $39 million. This increase was driven primarily due to growth from drop-downs of Sand and Southern Hills pipelines in March of 2014 and the ramp-up of the Front Range pipeline. As a quick reminder, all of these NGL investments are accounted for using the equity method accounting, which drives higher DCF rather than EBITDA.

And finally, in our wholesale propane segment, we reported adjusted EBITDA of $23 million, up $10 million, which included a partial recovery of the lower cost or market inventory adjustment that was recorded in the fourth-quarter 2014, coupled with higher unit margins.

Now moving to slide 8, I will quickly recap our financial position at the end of the quarter. Despite the uncertain environment, we continue to maintain strong liquidity and credit metrics. DPM's average cost of debt was about 3.8% and we have about $1.25 billion of liquidity available under our credit facility.

DPM's debt to EBITDA at the end of the quarter was 3.3 times, on the lower end of our target range, and our first-quarter coverage ratio was 1.1 times for the trailing 12 months, well within our target range. Therefore, despite the recent ratings downgrade, we have solid leverage in coverage metrics and we firmly believe that DPM will continue to have sufficient access to capital to fund our growth.

So DPM's balance sheet provides to DCP Enterprises a solid platform for growth and the Partnership's diversified and growing fee-based revenue stream supports our DCF targets, altogether driving sustainable growth to the unitholders.

Now let's move to slide 9. I will hit some highlights and developments regarding our margin portfolio and commodity sensitivities. We manage our commodity sensitivities on a portfolio basis with a multiyear hedging program, with 90% of our 2015 margins either fee based or hedged, so we have very limited exposure to commodity prices in 2015.

During the first quarter, the hedges with DCP Midstream were transferred to a strong investment-grade bank in our credit facility, now making the majority of DPM's hedges with third-party counterparties. And we are currently seeing opportunities to add onto our 2016 and 2017 hedge positions. More details to come as we continue to execute on our hedging strategy.

We have been very successful in adding fee-based investments and contracts to DPM's portfolio, with fee-based margins of about 60%, up 5% from 2014. We expect DPM's fee-based revenue stream to grow, demonstrating our track record and highlighting our commitment to driving and growing sustainable cash flow. We will proactively manage our commodity sensitivities through continued fee-based investments and our strong hedging program.

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

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

Thanks, Sean.

As you all know, DPM is an integral contributor to the overall DCP enterprise, and while we have some headwinds from commodity prices at DCP, we are very confident in the long-term fundamentals for the DCP enterprise and the industry as a whole.

We have a long history, almost 90 years, of prudently managing through all commodity environments. And remember, this is a must run business, with over 75% of the gas produced in the United States requiring some level of processing. And the DCP enterprise is the largest gas processor in the country, with over 10% of the nation's gas supply coming through our plants.

So I'm going to talk a little bit about our long-term strategy, which internally we call DCP 2020. It's a framework that all of our 3,200 employees are squarely focused on to position the DCP enterprise for long-term sustainability and profitability through all commodity cycles.

At the core is a foundation of operational excellence with three key principles -- risk management, efficiency, and reliability, which aligns everything we do, our priorities, our decision making, and all with an eye to being sustainable for the long term in any cycle.

So first, risk management. We take the broadest view of risk, beginning, of course, with operating safely and responsibly, but de-risking the DCP enterprise also extends to our contracts and working towards preserving and increasing margins and finding the optimal balance between fee-based and commodity-based contracts. And de-risking can mean increasing investments in fee-based projects and also protecting cash flows through our active hedging program.

Next part, efficiency. Earlier this year, we reduced our cost base by rightsizing and streamlining our organization and we began to rationalize our systems to ensure they're profitable through any commodity environment. This could mean shutting down all the facilities, upgrading plants, or tying together integrated systems, all with the goal of driving sustainable cost reductions.

And lastly, reliability, which really drives profitability and gives us the right to grow. Reliability is a must-have and our customers demand it and we invest a lot of resources to optimize asset performance and drive efficiencies.

Our focus on operational excellence will ensure the DCP enterprise delivers value to our unitholders and our shareholders in all commodity cycles in all business environments. So that means making smart capital decisions, being disciplined, and controlling what we can control.

So all in all, we feel that the DCP enterprise will be a stronger and fitter Company in the future and DPM continues to be very well positioned in the current business environment of 2015 and beyond.

With that, I'd like to thank you for your interest in the Partnership and Sean and I are now available to take your questions. Cynthia, please open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Gabe Moreen, Bank of America.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

A couple questions for me. First, on the hedge novation to the third party, can you just talk about the rationale for that and what prompted that at this time?

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

Gabe, this is Sean. Good morning. Bottom line, the hedge novation is a win-win for the enterprise as a whole. As I mentioned, it was novated with an investment-grade bank in our facility, and quite frankly, at the end of the day, it de-risks the volatility of cash flows for the enterprise as a whole. Obviously, partners DPM still has the hedges, which obviously keeps their cash flow very stable.

So win-win for the Company, investment-grade counterparty, was really a good thing, I believe, for both companies.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

And Sean, can you talk to the cost at the DCP LLC level to doing that? Was there a -- there must have been a cost to doing that.

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

I would say the positive, Gabe, at the end of the day is that the markets were there to basically lay it off and the costs were really de minimus at the end of the day. We were pleased to see that we could get those positions novated for LLC at a very de minimus price.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Okay. And then, final question on that would just be should we read into that in terms of the willingness of the parent to backstop future commodity risk for DPM in future periods after those hedges expire?

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

Gabe, good morning. It's Wouter. I wouldn't read anything into that at all. I think what Sean mentioned, it was a good opportunity for us to novate this to a strong counterparty, reduce the overall volatility for the enterprise, and do that at a price level that really was de minimus.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Okay, and then in terms of future hedging, you mentioned, Sean, trying to layer on additional stuff and I assume that means for 2016 and 2017. Could you just talk about is there -- you have got a little bit of coverage to work with. Presumably you have got some fee-based growth coming online that should help you in 2016, but can you talk about, I guess, what sort of pricing levels you're looking at to strike additional hedges out and how aggressive you think you're going to be with that for 2016 and 2017?

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

I would say this, Gabe, and I think you have hit some really good points. Obviously, we have got -- Wouter talked about a lot of projects that have recently come online, will come online. They are fee based. So, to your point, good line of sight of fee-based earnings, cash flows.

Around the hedges, we are seeing in the out periods, and I think that's exciting, in 2016 and 2017 some good movement around some of the commodities that -- around some of our open-position commodities that we can get out there and we believe put some hedges in.

In terms of pricing, I won't give exact pricing, but I would tell you that we are -- as we look to execute our strategy, it would be above -- to be honest, it would be above price levels that we had in our thought process when we were putting our budgets together last year.

So we like what we are seeing, and in terms of aggressive, our goal was to get that percentage up in 2016 and 2017. It looks like we're having the opportunity to do it, so we're excited about that.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Great. Then on the G&A count, where it came in for the first quarter, I know the organization has been aggressive in terms of targeting cost savings, but there was also the rework to the omnibus agreement in terms of cost sharing with the parent. Is about 1Q G&A and where that came in, is that about what you think is going to be your run rate for the year?

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

Yes, I think that -- it is Wouter again. I think that's a reasonable run rate.

You mentioned what we are doing at the enterprise level, looking at taking $70 million of cost out. We in January executed on a reduction in force. We were probably one of the first ones in the industry reduced our overall cost base at the core, [cutting] overhead by about 20%, so fairly aggressively.

There is some differences in the services agreement, as you mentioned, and the way you got to look at that is the tremendous growth that we've had at the Partnership, both from drop-downs, as well as organic growth. We don't have any employees at the Partnership, as you know, so all the services are done via Midstream and we just needed to make sure that all the growth that we have done, all the drop-downs that we have done, that they were in line with the cost support that we did.

But overall, look at it for the enterprise some pretty significant cost reductions, and we are well underway feeling good about those.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Okay. And then last question for me is just, Wouter, you talked about risk management on the enterprise basis. I think you have made previous comments talking about trying to take POP contracts and convert them to fee based, and also trying to, I guess, price your services properly with producers.

Can you just talk about where you are in that process, how much headway you have maybe made in the first quarter? I don't know if there is any numbers you can share around that.

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

Yes, I probably don't want to share too many numbers, but I think -- we spoke in February in New York at the Spectra analyst day, spoke about some of the things that we are doing, for instance, on contracts that are in evergreen. I think we have been very successful about that.

That effort was really around making sure that we get an adequate return from the services that we provide. So, we have gone aggressively after that.

We're also looking at, where the opportunity exists, transferring from some POPs to fee-based contracts and we really look at that on an opportunistic basis, making sure we get the right balance between POPs and between fees.

If you look at the bid-ask spread on a POP today, the producers are not willing to go to what is needed at these commodity levels to get the right type of return. So from a POP, that can make it difficult. At the same time, we do see some very attractive fees that we can strike on in the market.

So, where possible and where there is the right opportunity, we are converting some of our contracts into a fee-based contract with other ancillary services that we put on to those as well.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Thanks, Wouter.

Operator

James Carreker, US Capital Advisors.

James Carreker - *USCA Securities LLC - Analyst*

I was wondering if you guys could comment on your natural gas services volumes, both on the gas throughput and NGL production. It looks like they have been declining for the last two quarters. Can you just talk a little bit about where volumes are now and how you think about those for the remainder of 2015?

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

Yes, James, this is Wouter here. Let me take that at two different levels. Let me start at a much broader level around the DCP enterprise. As you know, we are in all the major basins and shale plays here in the country, so we have a pretty good insight, if you look at it from a DCP enterprise point of view, where things are going.

Rig count is down, call it, 50%, so obviously that is going to have some type of impact over the next number of quarters. What the impact is going to be exactly, I think that's too soon to tell. There will be productivity from the producers.

The other things that the producers will do is they are moving to more of their core areas. I have always spoken with all of you about midstream gathering and processing is a real estate game. Location really matters. We have always been in the core areas of these basins and shale plays, and I think in a time like this that plays to its advantage.

The other thing, and I mentioned it in my prepared remarks, we are not a build it and they will come type of company. There are people who did a lot of spec building. They probably don't feel very good right now.

We have 85% of our new capacity that we brought -- or 85% capacity utilization on all the new plants that we have put into service over the last couple of years, so that feels pretty good.

We do see a lot of new building growth coming online. Keathley Canyon, it's come online very, very hard. So, it came online a little bit later than expected, so that's part of why you are seeing the growth in the first quarter not being as much as we have expected, but what we're seeing today in how it is coming online, we feel really good about that.

Lucerne 2 coming online here in the next quarter, feeling pretty good about that. So, that's at a high level.

If you look at it at a smaller, more individual level for DPM, Eagle Ford and the South area, we had some issues in the first quarter. We had some operational issues with our own plants that are resolved right now. We had some issues around weather with freeze-offs. Those, obviously, are resolved. And then, we had a third-party pipeline provider that has been curtailing us.

So all of those together gave us a little bit of less throughput in the first quarter.

If I take a look right now and I compare April 2014 over April 2015, or even April 2015 over the first-quarter 2015 in the South area, we're up in volume, so I feel good about it. The producer activity is still there in the South area, so I say overall feel good about it at this stage.

If you go to the DJ Basin, even better story, to be perfectly honest. Growth Q1 2014, Q1 2015 up very significantly. Sequential quarters growth up, the volumes up significantly. April 2015 over first-quarter 2015 volumes are up. So we have run four out of the last five months we had record volumes in the DJ Basin, so we continue to see strong volumes there as well.

James Carreker - *USCA Securities LLC - Analyst*

Thanks. I certainly appreciate that color. And then, also, just stepping back a bit. I know you have got a -- guys have taken this drop-down to [TBD] versus your prior billion-dollar drop-downs a year. What -- how are you thinking about what you would need to see in order to reignite your drop-down story going forward?

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

Well, James, I think you really got to take a look at it together with what we have announced with the overall look at the DCP enterprise, so the solutions that we are working towards. And you have heard [Greg and Greg] talk on their earnings calls about we're trying to finalize these solutions here over the next couple of months between May, today, and October.

And the drop-down story is really part of that overall story. So, stay posted. We will keep you posted once we have something to announce there, but we will get the whole package for you ready then.

James Carreker - *USCA Securities LLC - Analyst*

Okay, no, I appreciate that. And then just last question, just on the lower of cost or market charge in the propane segment, can you guys quantify that? And then, also in that same segment, have you guys talked about what the impact is of that butane export facility?

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

Two things, James. This is Sean. Propane was up quarter over quarter almost double, right, and about half of that or a little less than half of that was the LCM adjustment. We were up about $10 million.

In terms of the butane export, we were -- I would tell you that those results were in line with our forecast and our expectations. What we really saw was better unit margins. Wouter alluded to it being a very severe winter, actually very concentrated into Q1, which is a little different. A lot of the weather happened over those three months.

So, about half of the good guide was related to the LCM. The other half, I would say, is predominantly better margins that we saw on butane basically at our expectations on that export.

James Carreker - *USCA Securities LLC - Analyst*

Thanks. That's all for me.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

It is Faisel from Citi. Just a question on the new projects that have ramped up and are also ramping up in the second quarter and year-end 2015. What do you guys estimate is the total EBITDA contribution on an annualized basis from all these projects?

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

Faisel, this is Wouter. We haven't given very detailed guidance, I believe, around that. So, let's stay posted on that one.

Faisel Khan - *Citigroup - Analyst*

Okay, got you. And then, if I look at you guys' maintenance CapEx guidance for this year, $50 million to $60 million, can you talk a little bit more in granularity in terms of what that covers? Is that only just to keep the plants running or does it include maybe potentially some refurbishment of older plants as some of those older plants have a lower cut of NGLs?

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

For DPM specifically, Faisel -- this is Sean, it is predominantly what it takes to keep flat. It's not that we don't -- the composite of the assets for the Partnership are relatively newer plants, and then, obviously, a lot of NGL logistics investments, which have a lower maintenance capital profile.

We had about $7 million for the quarter. We are still sticking to our $50 million to $60 million guidance for the year, but the reality is most of our work is estimated to occur in Q2 and Q3, which is pretty normal. If you look at last year, we were pretty light in Q1, get through the winter, and get a lot of our work done in the spring.

Faisel Khan - *Citigroup - Analyst*

Okay, and then you were talking about most of the plants at the Partnership level, I guess, are relatively new compared to the aggregate entity. What would you guys estimate is the average tenure or age of your processing plants within the Partnership?

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

Faisel, Wouter. I don't have that here on top of my head. I'm sure we can take a look at that, but I think your general statement is correct. The Partnership has some fairly large, significant, and new assets. If you take a look at O'Connor, Lucerne coming in, [Eagle] plant go yet, so there's a lot of pretty new plants that are in there.

Maybe going back to your prior question around what kind of type of margin would you expect from these new projects. The guidance we have always given you is 5X to 7X type of multiples, so you have the growth or the capital number, so you can do your math in the models around what it roughly will bring back.

Faisel Khan - *Citigroup - Analyst*

Sure, and then just on Lucerne 2, do you expect that to be completely accretive to volumes or do you think that it will cannibalize some volumes on some parts of your system? Meaning, will you see some parts of your system take volumes into Lucerne 2? How is that going to work out?

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

There is two things. What you always want to do in this business is you always want to direct your volumes to your best and most efficient plants. And new plants tend to be the best and most efficient, so there is definitely some volumes that are going to go to Lucerne 2 because we're just getting overall a better cut out of that plant.

But secondly, and I think more importantly, I spoke about how we have a number -- month over month, we are continuing to see these records, and what's interesting here in the DJ Basin, as you may know, there is -- at the wellhead, there is heating and that takes up a lot of gas in the system. Going here into the spring and summer season, those wellhead heaters are coming off, so that's going to bring some additional volumes in the system.

The other thing that we are seeing is we're seeing continued high pressures overall in the system, so bringing Lucerne 2 up is going to take those pressures down. That should get to a place where some of these older vertical wells or even some of the older horizontals start to flow or start to flow better, and that's also why we are doing the Grand Parkway project. Again, take those overall pressures in the field down and getting some of these older wells to flow again or start to flow better.

So, we absolutely see some -- expect to see some -- a good chunk of additional volumes coming into the system.

Faisel Khan - *Citigroup - Analyst*

Okay, appreciate it. Thanks for the color.

Operator

Jeff Birnbaum, Wunderlich.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Just in case he is listening, I will congratulate Bill again as well on his well-deserved retirement.

So, just a few questions from me. Wouter, thanks for the color earlier on volumes and what you're seeing in the Eagle Ford versus the DJ. Can you quantify how much the DPM outages and third-party curtailment around the Eagle Ford impacted the quarter?

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

We are not giving that exact detail out, but I think the way you got to look at it is, again, if you're looking at now April over the first quarter, we're up and we continue to see -- believe that we will have a positive trend going forward.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Okay. And I was curious if you could talk a little more as well about the performance you saw on Black Lake. You called that out in the slides. Is that primarily being driven by the success you're seeing some customers have in northwest Louisiana? And is that an area where you're looking at any incremental investment opportunities?

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

You know, Jeff, we have definitely seen volumes up on Black Lake, but if you take a look at the overall margins, we haven't seen margins go up much. So, it's an area where we probably are going to do a little bit of wait and see.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Okay. And curious, have you had -- just on the hedge novation, have you had any conversations with the rating agencies on how they view that and the impact that will likely have on how they view the enterprise overall?

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

Jeff, this is Sean. Yes, the answer is yes. Yes, obviously, the rating agencies are well aware of the hedge novation, really from an LLC perspective, but I think to your point, as I mentioned, it's a win-win across both companies and I think they view it that way.

So, I think they view it as a positive. Any time we can take some risk and some volatility out of the enterprise, the rating agencies are going to -- the cash flow -- the RAs are going to really like that, and, as we mentioned, to do that as efficiently as we did was a big positive. So, I would tell you they are viewing it very favorably.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Okay, that makes sense. Thanks.

And then, Sean, one last follow-up on your comment on hedging earlier. You mentioned you are seeing some opportunities to hedge additionally in 2016 and 2017. It doesn't seem like you have added much for 2016 over the last couple quarters, so just confirming, basically, you haven't really changed your approach to hedging in the out years and, I guess, whether you are considering any potential changes now or as part of a restructuring with the LLC.

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

Well, I can't speak to the latter yet, but regarding right now, Jeff, a couple very good positive trends. We went from -- we went -- increased 5% on our fee base, which is nice, and I believe we -- in the current trajectory, we believe that will grow every year. So, that's a positive.

Now as you think about the hedging on top of that with no change to the strategy, I think we put some positions on last year for 2016, a little bit for 2017, and, again, the good news and what we are excited about is that we see opportunities in the current environment as we sit here to continue to add on to those positions and we will definitely -- we want to get through that strategy, want to get through this period, Jeff. But I think we will have an update for you -- my hope is at NAPTP or something like that we can tell you where we are at.

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

Around the hedging.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Great.

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

Around the hedging.

Jeff Birnbaum - *Wunderlich Securities, Inc. - Analyst*

Thanks. Thanks, guys.

Operator

Selman Akyol, Stifel.

Selman Akyol - *Stifel Nicolaus - Analyst*

I appreciate all the clarity that you have been giving and I just want to go back to the 2016 hedging. So I heard you loud and clear that you are seeing opportunities to add in 2016, but have you done any adding yet as of this date?

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

I would tell you, Selman -- this is Sean. Good morning. We are in the process of executing, so I would leave it at that. We are looking at it pretty hard.

It's back to Jeff's point. There has been no shift in our strategy, so our risk department, our execution arm, is constantly looking at these opportunities, and if you obviously follow 2016-2017, there has been some strength in some of the commodities recently.

So, again, we are excited. We see some really good opportunities, and we will get you up -- when we get through this opportunity, we will come back and give you some revised numbers down the road on 2016 and 2017.

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

Selman, this is Wouter. When we saw all of you in March in New York, and there we had a lot of discussions around hedging, we told you that we didn't like what we saw in the out years for 2016 and 2017.

And over the last, I would say, week or two, things have definitely started to look a little bit stronger in the out years, so that means you will start to look and say, hey, are there some opportunistic ways to start taking some risk off in the out years, so that's what we are doing right now and taking a hard look at it.

Selman Akyol - *Stifel Nicolaus - Analyst*

Okay, great. I appreciate that. And then, I just want to go back to Lucerne and follow up on Faisel's questions. So do you expect that plant to fill fairly quickly, then, after it comes online? If you're bringing in some volumes from other plants and make sure we expect it to be completely full within 90 days or so?

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

No, I think that would be a bit opportunistic. 90 days to fill a 200 million a day plant, that's fairly -- that would be fairly significant.

But we do expect to see fairly strong growth in that plant as a whole. Filling up a 200 million a day in 90 days is a little bit too much to ask for, but overall feel pretty good about it.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right, thank you very much.

Operator

Becca Followill, US Capital Advisors.

Becca Followill - *USCA Securities LLC - Analyst*

To go back to the hedges, is the goal with the layering on at these additional hedges in order to maintain the distribution or is it to be able to grow the distribution post 2015?

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

Becca, this is Sean. Let me put it in this context and I alluded to it -- Gabe was asking the question earlier. Obviously, we lay out -- we have got forecasts and we look at the growth in our businesses that we have and so forth.

So I would tell you that the opportunities we are seeing today to layer on some of these hedges are incremental in terms of pricing to what we would have been modeling just back in November or in October even of last year. So, we see that as a positive.

So I would tell you if you want to take -- if you want to translate that into your comment, I would say better cash flows, obviously stable for the enterprise, is a good thing and for DPM is a good thing around distribution coverage.

Becca Followill - *USCA Securities LLC - Analyst*

I guess I'm looking at it in context of where your hedges are now, which are above where they were in November, and if you look at the quarter, those hedges covered about $61 million of cash flow or about 43% of your distributable cash flow. So are these prices that you are seeing for the incremental hedges, they are obviously below where you are right now. So I'm just trying to get a feel for can you get to -- if these hedges expire in 2016, will you be able to grow the distribution?

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

Yes, a couple of things. We have modeled -- and we have been talking about it a lot; we are excited about it -- a lot of growth in projects, some of which are just coming online, like Keathley, so we will see increased cash flows as that ramps up and year-over-year increased cash flows.

Same thing on projects like Lucerne 2 and even the pipelines. Wouter spoke about Sand Hills expanding the capacity already and the opportunity to take it more.

So, we see continued good growth in our cash flows from our fee-based businesses. That's what we have modeled going forward.

In terms of the drop from today's hedge prices to what we could lock in, we have been modeling lower prices and that's what I was alluding to before, in the past, and we're actually seeing the opportunity to increase those cash flows based on what we are seeing in the markets today and our ability to hedge that.

So, we feel pretty strongly about our ability and our cash flows going forward, both from growth from projects that we have in flight or just coming into service, and now de-minimizing or minimizing that spread between today's hedge pricing and where we can hedge at in 2016 and 2017.

Becca Followill - *USCA Securities LLC - Analyst*

Thank you.

Operator

And we have no further questions at this time. I will now turn the call over to Wouter van Kempen for your closing remarks.

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

Great. Thanks, everybody, for your interest in DPM. If you have any follow-up questions, please contact Andrea and all of us will make ourselves available. Have a great day and see you all later this month in Florida at NAPTP. Thanks.

Operator

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