Company Name: DCP Midstream Partners, LP (DPM)
Event: 2016 Annual MLPA Investor Conference
Date: June 2, 2016

<<Unidentified Analyst>>

And so if you can wander in and find a seat, we've got a great presentation as a leadoff after lunch, Wouter van Kempen, who's Chairman and CEO of DCP Midstream. Wouter van Kempen, who's Chairman and CEO of DCP Midstream.

<<Wouter van Kempen, Chairman, President & Chief Executive Officer>>

Thank you. Thank you, Paul, Paul. And I don't know where the tiramisu was. I apparently missed that one.

Good afternoon, everyone. I'm Wouter van Kempen. I'm the Chairman, President & CEO of DCP Midstream and DCP Midstream Partners. Joined today by Sean O'Brien, our CFO, and Andrea Attel, our IR Director.

First of all, want to thank the MLP Association for putting together this event. And, Paul, thank you for the introduction.

Next what I'll do is I'll point you to our Safe Harbor slide on 2, about any forward-looking statements that I may make. And then we can get underway.

So on Slide number 3 to begin, I'm going to start off with some basic nomenclature and relationships so that everyone is on the same page before I dive into some concepts I want to share with you.

So let's start with the DCP Enterprise. That refers to both DCP Midstream, the private joint venture that's owned 50% by both Phillips 66 and Spectra Energy, and a publicly traded MLP, DCP Midstream Partners, which I will refer to as DPM. And as I think most of you know, DCP Midstream owns the general partner of DPM.

Let's go to Slide 4. DCP Enterprise holds the industry leading position in the United States with a large portfolio of assets in gathering and processing. And we're integrated with our downstream logistics business. So, to take stock, we are the largest NGL producer and gas processor in the country and one of the largest NGL pipeline operators in the U.S. We view our geographically diverse footprint as a strong competitive advantage, as it provides us with access to multiple resource plays, contract types, and customers.

The DCP Enterprise has phenomenal assets, if not some of the best positions in our industry. We are a must-run business, integral to our country's energy needs. We process about 12% of the nation's gas supply through our 63 gas blends. And our goal is to be the most reliable, safe, low-cost midstream service provider, sustainable in any environment. And we have a proven track record of nine years of executing through commodity cycles.

So let's talk a little bit about the macro overview. On Slide 5, the industry has been through these cycles before, the cycles that we're going through today. As we go through them, we know that both supply and demand need to follow some type of economic principles and eventually will start finding some equilibrium. With lower prices, producers have cut their capital budgets. They've reduced their rig counts. And that is reducing the overall supply.

On the demand side of the equation, NGL demand growth from exports and new crackers in the Gulf Coast are within our sights now for 2017 and 2018. We also see producers reverting to their core competencies of drilling. We see producers start selling some of their midstream assets. Producers are high-grading and refocusing their drill bit to the most economic plays where they receive the best returns. And those are the Permian, the Delaware Basins, the STACK, the SCOOP area, and the DJ Basin.

So let's talk about how DCP is positioned to capitalize on this industry reset. We're optimizing our systems, enhancing our gathering system, becoming a low-cost service provider, all the while operating more reliably and operating more efficiently. We have a very diverse footprint, with 66,000 miles of gathering and NGL pipelines, and leading positions in the core acreage where the producers are focused today. Location has always been our competitive advantage. And with this advantage we're establishing long-term contracts with strong producers and stabilizing cash flows while increasing fee-based margins.

So DCP is set up very well to capture all the opportunities coming from this current industry reset. We're very excited about how our strategy, which we call DCP 2020, has progressed in its execution since we started it in 2014. All 2,800 of our employees have embraced our goal to become the most reliable, safe, local midstream service provider, sustainable in any environment.

The DCP Enterprise continues to drive down its breakeven NGL price, heading towards $0.30 per gallon. And with current NGL prices close to $0.50, we're obviously benefiting from this NGL price uplift. We're also significantly resetting our cost base to levels that will be sustainable and competitive in any commodity cycle, and positioning us for a recovery. We're well on our way to achieving our $200 million base cost reduction target. Some of our actions have been very, very difficult. We've reduced our workforce by 20%, or about 600 roles, since the height of our growth program. So to put that in perspective, today we're running about $14 billion of assets with the same number of people that we ran $8 billion of assets with in 2010.

I'm especially proud of our step change in reliability improvement. We continue to operate more efficiently and more reliably, adding $35 million-plus of margin in 2015. And we're targeting another $45 million-plus of margin uplift in 2016, just from running our assets better. And that's a win/win for us and for our customers. And we're doing all of this while we're actually spending less money.

We've made strong progress on our contract realignment effort, to convert one third of our NGL equity length to fee. We've added significant fee-based margins to DCP's portfolio. Overall, we're already more than 75% on the way to our goal of $200 million of annualized margin uplift by the end of 2017. We've been diligently managing our capital program with strong utilization rates and no significant projects remaining. Our consolidated capital budget includes about $150 million for growth and $100 million for maintenance.

With a focus on system utilization we'll continue to optimize and rationalize our systems. And that includes consolidating or idling less efficient older plants and compressors and selling some non-strategic assets. To give an example of that, during this quarter, the second quarter, DPM has signed an agreement to sell non-strategic assets for about $160 million, and we're right now in the process of idling a 240 million a day plant, which will significantly reduce costs and improve our overall asset utilization. And we did all of this while once again achieving record safety performance. So all in all, we feel that the DCP Enterprise is becoming a stronger and much fitter company.

Let's go to Slide 7. We're very confident with where we stand in the current environment, how we're set up to pivot to take advantage of the upside. As the largest NGL producer and gas processor, we have a significant amount of commodity exposure at DCP Midstream. So with that, we were one of the first to feel the effects of the downturn in late 2014. But in recognizing signposts earlier, we also others and began to reset our breakeven NGL price. And that's the success of executing on our DCP 2020 strategy.

In the current industry landscape, many companies are still caught in the undertow of bankruptcies, rating downgrades, volume and rig declines, and capital budget cuts. In contrast, we are cresting the currents and are set to pivot for recovery. And why is this? Because the same commodity length that exposed the DCPM to the downturn sooner is now our harbinger of the recovery on the horizon. So while we were the first one to feel the pain, we're the first ones to feel the gain as well.

So how are we positioned to pivot? We were proactively and deliberate in our DCP 2020 strategy execution. We're already seeing significant uplift through running our assets better, contract realignment, resetting our cost base. I'm excited to share that we just inked a new three-year $700 million credit facility at DCP Midstream, which, combined with DPM's facility, provides the DCP Enterprise with $2 billion of liquidity. And while we've historically benefited from commodity exposure, we're derisking the DCP Enterprise through our contract realignment efforts and we're targeting to hedge a meaningful portion of DCP Midstream's 2017 margins, further stabilizing cash flows. But we're still leaving plenty, plenty of room for upsides.

We're seeing opportunities around ethane recovery. With our leading footprint and our integrated value chain, we're strongly positioned to capture those ahead of other people. And our DCP 2020 execution is providing us with great returns and EBITDA growth without spending much money. We've been setting the Company up to be sustainable in any commodity environment. We're ready to pivot and benefit from the recovery.

So let me go to Slide 8 now. I would like to turn to talking to you about the questions that we receive from our investors and analysts and when we sit in one-on-one meetings. And those questions are, like: What assets remain at the top? What assets can be dropped to DPM? What is our contract risk? Our customer profile? What are the volumes by basin? What is our liquidity, our financial position for both of the entities? And what opportunities exist around ethane rejection? And lastly, how does the DCP 2020 strategy, how does it benefit DPM? So I'm going to touch on each of these questions on the next few slides and walk through that.

So let's start with the first question: What assets are in DPM and what assets remain at DCP Midstream that could eventually be dropped into the partnership? Here in the middle map on the right call-outs you can see DPM's premier geographic footprint, with its leading position in the DJ Basin and the Eagle Ford, as well as its significant network of NGL pipelines, making it a strong, integrated midstream service provider. In its own right DPM has about $5 billion of assets, accounting for roughly 40% of the overall DCP Enterprise.

So that leaves a great inventory of assets at DCP Midstream, about $8 billion worth. And those assets are in the DJ and in the Permian, the Midcontinent, as well as our one-third interest in Sand and Southern Hills. And these DCP Midstream assets are increasingly more MLP friendly as we convert contracts to fee. This premier footprint sets DPM up for growth on many different fronts.

We talked about our DCP 2020 execution. The cheapest growth is achieved by us lowering our cash flow breakeven through things like resetting our cost base, spending less money, operating more reliably, and operating more efficiently. Additionally, DPM can grow organically around the DCP Enterprise's extensive footprint. Assets can be dropped and DPM's pipes [ph] (0:12:46) will benefit from ethane recovery. And remember, DPM is the first call on DCP Midstream's strong inventory of assets. And that's how our premier footprint differentiates us from others in this space.

Let's go to the next question on Slide 10. A lot of times I get asked about our re-contracting risk, about our volume risk. So let me start with the re-contracting side of the house. First, DJ Basin. That is really pretty simple. There is no re-contracting risk in the DJ Basin. The DJ is all life-of-lease contracts with very strong producers. Going to the Midcontinent and the Permian, what we do there is we provide low-pressure gathering to the wellhead, and that is very difficult and very expensive to replicate. So we work closely with our producers and have great re-contracting risk.

Let’s go to the Eagle Ford, area that we get a tremendous amount of questions about these days. What we did when we built new plants in the Eagle Ford a number of years ago, we proactively extended contracts with our major producers out to 2021 and 2022. So unlike many others that have re-contracting risk and contracts coming due in the Eagle Ford, we do not have any major contract coming due for another five to six years. Lastly, going to the NGL pipelines, our contracts there range from 10 years to 20 years, with both DCP Midstream and with third parties.

So, in summary, feel very confident about our contract portfolio and our very limited exposure to any re-contracting.

Let’s shift to the volume side of the house. In the DJ Basin we have set sequential record volumes in January, in February, in March and April of this year. And that’s largely due to strong production in the field and DPM’s Lucerne 2 and Grand Parkway projects being placed into service. 2016 volumes are expected to stay strong in the DJ. The Midcontinent is an area that is still seeing some growth from the STACK and the SCOOP areas. However, overall we do expect slight declines in that area.

Going to the Eagle Ford, we’re forecasting declines 15% to 20% in the Eagle Ford, even though we were only down 4% through April. Going to the Permian, the Delaware Basin continues to be a great area for producers. We’re expecting slight growth in the Delaware Basin from our Zia II plant, and overall strong producer activity. Lastly, going to the NGL pipelines, Southern Hills seeing growth from the upgrade of DCP Midstream’s National Helium plant and additional ethane volumes due to new tariff rates that we recently implemented to incentivize ethane recovery. Also, we just increased Sand Hill's capacity by 30,000 barrels per day and are expecting continued growth from DCP Midstream Zia II and other third-party plants in the Delaware Basin.

Overall, we will continue to watch our volumes very, very closely. But we feel that the geographically diverse portfolio that we have is setting us up very well for 2016 and beyond.

Let's go talk a little bit about DPM's and DCP's financial position. And let me start on the left with DPM. DPM has ample liquidity, with a $1.25 billion credit facility, no bond maturities due until December 2017. And while some of you have expressed concerns around DPM's hedges rolling off in the first quarter of 2016, I want to remind you that we've known about this since we put the hedges in place in 2013. And we've deliberately grown DPM's fee-based margins. If you look back to DPM's fee-based margins in 2013, they were 50%. Today they've grown to 75%. That’s a 50% increase.

And DPM has very strong financial metrics. At the end of the first quarter, DPM's leverage was 3.3 times, and distribution coverage for the trailing 12 months was 1.24 times. DPM was one of the first MLPs to hold its distribution flat at the beginning of 2015. And we did that because we saw a tough cycle coming and felt it was prudent to build distribution coverage.

Let's switch to DCP Midstream on the right. Recently we've received a number of questions about DCP Midstream's credit facility that was maturing in March of 2017. I mentioned earlier we've executed a new three-year facility, $700 million, which now carries us through May of 2019. So the enterprise as a whole has $2 billion of liquidity. We're also stabilizing cash flows at DCP Midstream by growing our fee-based margins to an estimated 60% by 2017. In addition, we recently layered on some 2017 crude, gas, and NGL hedges at DCP Midstream, covering about 4% of DCP's overall 2017 margin.

So let move to Slide 12 and I'll address the questions about opportunities that we see around ethane recovery. Looking out at the horizon, the petchem industry expansions and exports that once seemed so far off are clearly in our sights now. The petchem industry is making billions of dollars of investments in steam crackers that are expected to come online in 2017 and in 2018. And those facilities crack only one thing, and that is ethane. Those expansions, along with PDH facilities and exports, are anticipated to need ethane in excess of what is currently being rejected by the industry.

So to give some perspective, over 650,000 barrels per day of ethane are currently being rejected in the lower 48. And more than half of those barrels are squarely found around the DCP Enterprise footprint. And that spells a tremendous opportunity for us. Not only is the DCP Enterprise the heaviest hitter in NGL production, we're also at the top of the batting order when ethane recovery begins. And as an integrated midstream provider, we are greatly advantaged. The economics will tell you that those who are closest to the Mont Belvieu market will benefit first.

So if you start in Mont Belvieu at the nucleus and draw concentric circles, ethane recovery should begin in the Eagle Ford, then East Texas, then the Permian, the Midcont and DJ Basin, et cetera, et cetera. And those are all areas where both the Partnership and DCP Midstream have a tremendous footprint. In a full ethane recovery scenario, we believe The DCP Enterprise could see $75 million to $100 million of annualized uplift from the increase in NGL pipeline and fractionator throughput, with about 60% of that benefit flowing through to the partnership.

On top of that is any uplift from an increase in ethane and overall NGL prices. And as I mentioned earlier, we recently filed a tariff to incentivize third-party plants to start extracting adds incremental barrels on Southern Hills pipeline. So we are not just putting these opportunities on a slide. We're actually putting these in the bank.

Let me go to Slide 13 and the final question that I want to address. Asked a lot about DPM's distribution and how DCP 2020 benefits DPM. If there's one message we want to send today it's the strong alignment between DCP Midstream and DPM. Both are guided by our DCP 2020 strategy, which is founded on being the most reliable, safe, low-cost midstream service provider. Everything that we execute at the DCP Enterprise benefits the bottom line of DPM in terms of improved reliability, lower cost, contract realignment, asset utilization. DPM's size and scale has grown through this support with $3.4 billion of organic growth investments since 2010. There's a significant inventory of MLP-friendly assets which stabilize cash flows at DCP Midstream that could eventually make itself to the Partnership.

So, to conclude, the strong sponsor and general support and alignment drive sustainable growth for the Partnership.

Let me wrap it up here on Slide 14. DPM continues to be a very compelling investment opportunity. We are a must-run business with a competitive footprint and very strong geographic diversity. We have a long and successful track record of strategy execution and delivering sustainable value. DPM has one of the strongest balance sheets and distribution coverage ratios amongst its peers. And DPM's balanced contract portfolio has growing, fee-based margins with a multiyear hedging program, and that means reduced earnings volatility.

And all of this is founded on the strength of The DCP Enterprise as a whole and the foundational support of Phillips 66 and Spectra Energy, sponsors that are clearly committed to our success. All of this positions DPM strongly to deliver sustainable value to its unit holders in the current environment and beyond.

And with that, I've got two minutes and 17 seconds left. And, Paul, I don't know if we have any time for questions or if we do it via a breakout session.

Thank you very much.