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DPM - Q3 2016 DCP Midstream Partners LP Earnings Call

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CORPORATE PARTICIPANTS

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

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

Sean O'Brien *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

CONFERENCE CALL PARTICIPANTS

Robert Balsamo *FBR Capital Markets - Analyst*

Jeremy Tonet *JPMorgan - Analyst*

Selman Akyol *Stifel Nicolaus - Analyst*

Helen Ryoo *Barclays Capital - Analyst*

Chris Sighinolfi *Jefferies LLC - Analyst*

Jerren Holder *Goldman Sachs - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the DCP Midstream Partners Q3 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's conference call is being recorded. I would now like to turn the conference over to Andrea Attel, Director of Investor Relations. Please go ahead.

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

Thank you, Candace. Good morning, and welcome to the DCP Midstream Partners' third-quarter 2016 earnings call. Our speakers today are Wouter van Kempen, Chairman, CEO and President of DCP Midstream and the Partnership, and Sean O'Brien, CFO of both companies. Today's call is being webcast and the slides are available on our website at dcppartners.com.

Our discussion today includes forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements. For a complete listing of our risk factors, please refer to the Partnership's most recently filed 10K and 10-Q. We will also use various non-GAAP measures, including distributable cash flow, adjusted EBITDA and adjusted segment EBITDA which are reconciled to the nearest GAAP measure in schedules in the appendix section of the earnings slides. Now I will turn the call over to Wouter.

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

Thanks, Andrea. Good morning everyone, and thanks for joining us, for your interest in the partnership. Quarter after quarter since this cycle unfolded, the DCP enterprise has outperformed itself in resetting our business to be sustainable in any environment. We've accompanist this through our unwavering focus and execution of our DCP 2020 strategy. To be (inaudible) playbook, guiding all of our 2,700 employees who are delivering every day on safety, reliability, and operational excellence. And although commodity markets are still volatile, we believe the overall environment is shifting to be a bit more positive. There is a cadence to these cycles. And we are confident in our playbook and our strong and tremendously focused execution.



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With that, let's move on to reviewing this quarter's highlights and providing an update on volumes. And then Sean will discuss the financial results. And I will come back and close with some summary thoughts. Starting with the financial highlights. During the second quarter 2016 DPM generated adjusted EBITDA of \$132 million and DCF of \$124 million. Our distribution remains flat at \$3.12 per unit annualized. And we generated distribution coverage of 1.02 times for the quarter and 1.16 times for the trailing 12 months. Our solid coverage coupled with low leverage of 3.3 times provides us with excellent runway.

Our third-quarter financial results were down primarily due to the roll-off of expired hedges. However, on this slide you can clearly see the significant contribution of our DCP 2020 strategy, evidenced by significant operating and maintenance cost savings, improved reliability, and an increase in fee-based growth which has more than offset volume declines. As we discussed on our last call, we closed on the sale of our North Louisiana assets on July 1 and used \$160 million of proceeds to pay down debt and strengthen our balance sheet. Also during third quarter the Panola pipeline expansion went into service, substantially completing our announced 2016 growth program which included the completion of Grand Parkway and the addition of pump stations to expand Sand Hills. And lastly we have increased our DCF forecast for the full year, which Sean will give some more details on later on.

Now let's move onto our natural gas services volume update on slide 4. First, I want to highlight that for comparative purposes on this slide we removed the volumes that were associated with our North Louisiana system from the prior periods. So excluding these North LA volumes, we were down about 12% from the third quarter of last year and 3% sequentially from last quarter, driven by declines in the Eagle Ford and East Texas and partially offset by higher margin DJ Basin volumes. As expected, volumes in the third quarter on both our Eagle Ford and East Texas systems continued to show declines, and are tracking with our 2015 to 2016 exit rate forecast of about 20%. However, our strong focus (inaudible) optimization is clearly visible through cost savings associated with idling plants in these areas. We watch recount actively and recount very closely. And we believe we are nearing the bottom in the Eagle Ford and East Texas. We are optimistic that with improved commodity prices, drilling will return to these areas that are advantaged with our close proximity to the Mont Belvieu market center.

Now looking at the DJ Basin and the Discovery systems. Growth in these assets, combined with higher margins per Mcf, have offset declines in the Eagle Ford and East Texas demonstrating the strength and the diversity of our asset portfolio. The DJ Basin continues to be a great story for the DCP enterprise. Let me put that in perspective for you. In October we posted our third highest throughput this year, averaging above our total 800 million Mcf a day of capacity. DPM's DJ basin volumes are up year over year due to strong production in the field, the start up of DPM's Lucerne 2 plant in 2015, and the Grand Parkway project that was placed into service in January. At Discovery, utilization increased 10% during the third quarter with volumes averaging right at its 240 million Mcf a day capacity. And with an improving commodity outlook for 2017, we and our producers are looking ahead with cautious optimism around the potential for growth. Given the longer lead times for us to build processing capacity, we continue to have very targeted and in-depth discussions around the timing of producers' drilling and capacity needs in both the DJ and the Permian Basins.

Now let's move onto slide 5. Our NGL logistics segment continues to perform well, with total NGL pipeline throughput up 9% from the third quarter of last year. Our Sand Hills pipeline volumes remain strong, with the recently expanded 280,000 barrel per day of capacity already 90% utilized during the third quarter. The increase from last year was due to the recent capacity expansions, laterals that came online in 2015, higher NGL production from strong Permian and Delaware Basin activity, and from DCP Midstream's CF2 plant that went into service in the fourth quarter of 2015. We are currently evaluating the timing of additional capacity needs related to new third-party plants. And we remain optimistic around upside opportunities for methane recovery as we look out to the crackers that are expected to come online in 2017 and 2018.

Southern Hills volumes were also up compared to the third quarter of last year due to increased NGL production from DCP Midstream's National helium plant, which restarted in the fourth quarter of 2015. Utilization and throughput remain flat for the third quarter, despite lower NGL production associated with a plant turnaround in September. In summary, our NGL pipeline add to the strength and diversity of our portfolio, with fee-based growth from this segment helping to offset declines in our natural gas services segment. Now let me turn it over to Sean to cover our financial results.



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Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Thanks, Wouter. Thanks everyone for joining us this morning. As Wouter previously mentioned, we revised our 2016 forecast ranges for adjusted EBITDA, DCS, and maintenance. As shown on slide 6 we tightened our adjusted EBITDA range to between \$575 million and \$585 million, now reflecting the impact of the sale of North Louisiana.

As we stated last quarter, although this is a reduction in EBITDA, this divestiture was DCF neutral. As we increase the midpoint of our DCF range by \$40 million with a revised range of \$515 million to \$525 million, primarily due to strong performance from our Sand Hills pipeline and lower than expected maintenance spend. Additionally we have previously said that we would be at the lower end of our growth capital range of \$75 million to \$150 million. And we continue to evaluate potential growth projects around our DJ and NGL pipeline assets. We're expecting higher 2016 distributions from our Sand Hills NGLs pipeline due to higher volumes, driven by Permian region growth resulting in the Sand Hills pipeline nearing it's already expanded capacity. And we've lowered our maintenance capital forecast to between \$10 million to \$15 million for the year end to reflect our recently divested North Louisiana assets, lower well connects from reduced drilling and well connect activity being funded by producers, and lower expected maintenance spend from the idling of plants in the Eagle Ford and East Texas.

Now moving to slide 7 I'll hit the quarterly financial highlights. In our natural gas services segment third-quarter adjusted EBITDA was \$100 million, as shown in the waterfall. The decline from the third quarter of last year was primarily due to the roll-off of [firm] expand hedges. However, we have highlighted growth from our Lucerne 2 plant and Grand Parkway projects in the DJ, coupled with cost savings, have more than offset the sale of North Louisiana and volume declines in our Eagle Ford and East Texas systems. Our combined NGL logistics and wholesale propane segments were essentially flat compared to the third quarter of last year. NGL logistics' adjusted EBITDA increased \$2 million to \$50 million, driven predominately by higher throughput volumes on Sand Hills, Southern Hills, and the recently expanded Panola pipeline. And our wholesale propane results were relatively immaterial due to normal season activity.

Now moving to slide 8 I will provide an update on our hedge position and margin portfolio. Our focused execution on our DCP 2020 strategy has continued to deliver strong results, evidenced by our growth in fee-based earnings and efficiencies tied to our cost savings initiatives. Looking outward to 2017, we estimate DPM's fee-based margin to climb to 80% or more, leaving only 20% of the portfolio exposed to commodity prices. With our focus on managing risk we continue to proactively manage commodity exposure through our hedging program. And with the recent improvement in commodity prices, we executed additional 2017 NGL gas and crude hedges, now taking our 2017 hedge percentage to 35%, up from 10% just last quarter. So that brings DPM's 2017 fee-based and hedge margin up to approximately 85%.

Next on slide 9 I will covered DPM's strong credit metrics, leverage and distribution coverage ratios, underscoring our stable balance sheet. Our leverage ratio at the end of the quarter was 3.3 times, on the low end of our target range. And our coverage ratio was 1.02 times for third quarter and a solid 1.16 times for the trailing 12 months. And as of September 30 DPM has \$179 million of borrowings outstanding, down 43% from that \$316 million balance at the end of the second quarter. We have ample liquidity, with \$1.1 billion available under our \$1.25 billion credit facility. And at September 30 DPM had \$2.25 billion of principal debt outstanding, including credit facility borrowings with an average cost of debt of 3.7%. And with that, I will hand it back over to Wouter to wrap things up.

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

Thanks, Sean. We are now two years into our DCP 2020 strategy execution. And I'm very proud to say that our teams have performed very, very well on everything that we set out to do in 2014. This strategy has had a phenomenal impact to the DCP enterprises' bottom line.

We've already made a step change in how the DCP enterprise operates. And we are well on our way to become the most reliable, safe, low cost midstream service provider, sustainable in any environment. To put this in perspective for you, DCP Midstream has driven down its NGL per gallon breakeven price to \$0.31, well below our \$0.35 2016 goal. With our focused on asset utilization, we will continue to optimize and rationalize our systems, consolidating or idling less efficient plants, compressors, and pipe. We have realigned our contracts and added fee-based earnings and hedges, significantly reset our operating cost base, and we reduced our maintenance spend, all while operating better and more reliably.

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Our DCP 2020 strategy continues to benefit DPM, as evidenced by a 17% reduction in DPM's operating costs, lower maintenance spend, and its 2017 margin already 85% fee-based and hedged. This strong growth in fee-based earnings, combined with cost savings, has offset DPM's volume declines in the Metro gas segment. I am really excited that our assets are running the best they ever have during my tenure with the Company. And we continue to be an industry leader in safety. That is a win/win for both our producer customers and us. I couldn't be more proud of all our employees for their commitment. I want to thank them for their strong DCP 2020 execution and their continued safety leadership.

As I said in my opening remarks, this quarter has started to feel a bit more positive. We're having very meaningful and in-depth discussions with our producer customers as they are evaluating their planned drilling activity in areas around our footprint, such as the DJ and the Permian which will benefit both our GMP and our NGL businesses. In summary, looking forward to 2017 we will continue to evolve the DCP enterprise to add value for our unitholders, our customers, and our employees. With that, I would like to thank you for your interest in the Partnership. And now Candace, we are ready to take some questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Our first question comes from Robert Balsamo of FBR. Your line is now open.

Robert Balsamo - *FBR Capital Markets - Analyst*

Good morning. I was wondering if you could give a little color on the activity with producers? You mentioned well connects being funded by those producers, bringing down maintenance CapEx. Can you elaborate on that dynamic and how we should think about that moving forward?

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

This is Sean. In this environment, obviously well connects are down as a whole due to the reduction in drilling. But we've been able to, as we haven't spent money on well connects in some areas that still are showing some growth, been able to push those costs back to the producers, obviously lowering our capital cost. That may not be something we can hold forever, as we've indicated as the environment gets -- improves and we start to see more growth. But it's definitely been a cash positive for us this year.

Robert Balsamo - *FBR Capital Markets - Analyst*

Great. And let's see. The O&M expense in natural gas services was flat. Do you expect any impact there from the sale of the North Louisiana assets?

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Yes, we do expect some impact there. Obviously we have some timing and our costs -- our costs are down as a whole. We've talked about a lot of the solid execution on our DCP 2020 strategy. That's definitely driving cost down. We've also obviously divested some assets. And we've also consolidated some assets. But there is some timing in there. But we do expect those reductions to be permanent as we move to 2017, tied to the sales of North LA and the consolidation of some assets in the Eagle Ford and East Texas.



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Robert Balsamo - *FBR Capital Markets - Analyst*

Real quick last question. On your hedges, I saw you increased the coverage. Do you disclose the type of hedges? And then roughly if these were swaps or if there was a significant cost associated with them?

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

There were no significant costs. We use a clearing -- we use ICE to clear these hedges. These were direct commodity hedges, that we've mentioned we hedged crude, NGL, we hedged gas. And that is actually a significant improvement over many years ago now, you can actually get out now and hedge the direct NGL products. We like that. We like the prices we got on these hedges. And obviously it's taken our fee and hedge percentage now to 85%. I would even indicate post putting the materials together we've added some additional hedges. So you'll see that percentage go up a little bit as we go forward.

Robert Balsamo - *FBR Capital Markets - Analyst*

Great. Thanks for the color. That's it for me.

Operator

Thank you and our next question comes from Jeremy Tonet of JPMorgan. Your line is now open.

Jeremy Tonet - *JPMorgan - Analyst*

Good morning.

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Morning.

Jeremy Tonet - *JPMorgan - Analyst*

I was just wondering if you could refresh us on CO2 rejection levels this quarter? How it compared to the last quarter and how you kind of see that trending so far this quarter?

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

Good morning, Jeremy. It's Wouter. If you take a look at where we are, I would think for the year June was probably the lowest ethane rejection that we've seen. At that time we definitely had a little bit of extra ethane coming on our system from the incentive tariffs that we put in. It worked for us, it worked for third-party customers as well. We have trended up probably a tiny little bit since June overall. If you look at the second quarter 2016 versus the third quarter of 2016, we're actually down a little bit. I would say we're in the mid to high 60s of rejection on the DCP system as a whole.

You're starting to kind of take a look at what does that mean for the next couple of quarters and into 2017? We are still optimistic (technical difficulties) crackers that are going to come online, they will come online, there is going to be tremendously significant ethane demand coming out of the Gulf Coast. Our -- the DCP enterprise as a whole, I think, is tremendously well positioned to benefit from that. We've spoken with you about the opportunity that would give for us \$75 million to \$100 million for the enterprise as a whole. I think there is a little bit of timing. I think markets are volatile. You have seen it, unlike last week, unlike versus where we are sitting this week as it pertains to things like crude, gas, and some

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of the products. I think we're going to be in kind of a volatile band here for the next number of months and quarters. But at the long run, I do believe that we're going to see a good, upward trend that will benefit us significantly.

Jeremy Tonet - *JPMorgan - Analyst*

Great, thanks. And then when you were talking about the hedging there, I'm just wondering is the percentage hedge, is that correspond with your composite barrel? Or is it more weighted towards the heavies, or anything you can share with us there?

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

We use the industry barrel when we're filling that.

Jeremy Tonet - *JPMorgan - Analyst*

Got you. So it's hedged across, okay. Got you.

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

I would just add to that, but we are hedging our particular position. When we look at our equity position, obviously we're looking at our length by commodity.

Jeremy Tonet - *JPMorgan - Analyst*

Got you. I just didn't know if there was more C4/C5 hedging relative to C2/C3.

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Yes. Because of our equity length we are a little bit heavier than the standard industry barrel, yes.

Jeremy Tonet - *JPMorgan - Analyst*

Okay. And then was just curious with regards to when 2017 guidance might come out. Given what's happening in the whole family structure, do you have any thoughts on when that might be provided, and any preliminary thoughts of direction of EBITDA versus where you are now?

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

We're going to give guidance always in February. And we continue to expect that when we do our Q4 earnings in February that is probably the time you will see our 2017 guidance. We will continue to stay with that approach, as we have done in the last number of years.

Jeremy Tonet - *JPMorgan - Analyst*

Okay, great. Thanks. And then just last one. Going back to the maintenance CapEx. Was the big driver there, coming down by more than half was really just being able to push back on the producers as far as well connects to keep your -- to offset normal depletion there? And was that kind of one-time in nature and we would expect maintenance CapEx to bounce back next year to what the original guidance was for 2016?



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Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

I wouldn't say was the main driver. As you think about it, obviously some of the divestitures, some of the asset consolidations had some significant maintenance capital tied to them. So that obviously we will not spend. And as you think about going forward, those are more permanent unless we see some growth and bring assets back in. I think the other thing in general, too, is there has been a decline in the amount of well connects that we would normally spend, if you look historically. And then you add on the fact that we are getting more reimbursements for the producers. I would not say it's the main driver.

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

Jeremy, why don't I add some things to this? Because obviously there's always a focus on maintenance CapEx, and it makes sense. I think what you got to look at is the things we're talking with you about, what is the focus of the Company? How we are executing our strategy. I made comments about in the six plus years that I've been with this Company, we are running better than we ever have. And we are spending less money doing it. There's a tremendous focus by Brian Frederick and his team focusing on how we are running these assets. And run them smart.

We are seeing that in a variety of different ways. Reliability is up. Our -- what we call our lost profit opportunity, that's basically when we make a mistake, an engine goes down or a plant goes down, how much does it cost us? That has come down very, very significant. If you take a look at engine failures, those are going down very significantly. So yes, we're driving maintenance CapEx down significantly. But we're doing it while running the assets better. And our customers are telling us, hey, you are running these assets a lot better. A lot of this, yes, there is well connects. We hope to see that maintenance CapEx is going to go up from well connects, no doubt about it. But we are continuing to focus on making sure that what we drive, which is related to reliability, that we continue to optimize that in a great way. I think the results show it.

Jeremy Tonet - *JPMorgan - Analyst*

Okay, great. Thanks for the color. And maybe just one last one, if I could. As far as things improve across the enterprise, just wondering how things are looking upstairs with the family relationship? Could there be drop-downs again at some point in the future? Any updated thoughts on all that would be helpful.

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

The family relationship has always been good. Continues to be great. The way I would look at this is it's optionality. We talk always about hey, we have the best inventory of assets sitting at LLC. There is a phenomenal set of assets sitting at LLC. We are reducing our cost. Our NGL breakeven is down significantly. LLC is in very good shape and it's strengthening. I think you've heard that at the calls that Phillips and Spectra did earlier this week and last week. We are making the assets more MLP friendly. And we're doing some hedging on top. Our contract realignment initiatives that we started two years ago has great success at LLC. What does it give us? It gives us tremendous optionality to have assets and the right assets come down, if we decide we want to do so.

Jeremy Tonet - *JPMorgan - Analyst*

That's it for me. Thank you very much.

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Thank you, Jeremy.



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Operator

Thank you and our next question comes from Selman Akyol of Stifel Nicolaus. Your line is now open.

Selman Akyol - Stifel Nicolaus - Analyst

Thank you. Good morning. Couple quick ones for me. You talked about having optimism seeing potential bottoming in the Eagle Ford and East Texas. I was wondering if you could expand on those comments, exactly what you're basing that on?

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

Selman, Wouter here. We are really basing it on the activity that is happening on the ground. We are looking at rig count very, very closely. Talking to our producer customers every single day. The Eagle Ford to me is an interesting area. Obviously has gone from darling to dog pretty quickly. At the same time the Eagle Ford continues to be a great area to do business. It's close to the market center. If you think about ethane recovery, it's the easiest way to get ethane from -- to Mont Belvieu. It's close to Mont Belvieu. There's tremendous infrastructure and the gas takeaway, NGL takeaway, crude takeaway, gas processing. So I'm cautiously optimistic that when things start to bottom out there, and from a rig count point of view it feels like things start to bottom out, that potentially the Eagle Ford has some upside when things start to stabilize or commodities go up.

Selman Akyol - Stifel Nicolaus - Analyst

Got you. And then as I just take at your utilization on your pipeline there, Any thoughts in terms of as you look out into 2017 what you expect from Southern Hills or Front Range in terms of those pipes filling up and driving more cash flow to you guys?

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

Absolutely. You talk about Southern Hills, Front Range, I think both of those pipes have some good upsides. But I think Sand Hills is the one where there is -- continues to be great upsides for us. We increased the capacity to 280,000 barrels here over the last couple of months. We're kind of getting close to 90% utilization there. If we take a look at all the third-party plants that we have connected, all the activity that is taking place in the Southern Delaware Basin where we have a tremendous number of gas processing plants, third-party plants connected, I am pretty optimistic that there's opportunities for us to continue to expand that pipe. And as you know, [MDL] pipeline expansions are probably economically the most advantageous things that you can do. You spend \$20 million, \$30 million, \$40 million, \$50 million in putting a couple of pump stations in. And it gives you tremendous additional throughput capacity. So yes, very actively looking at that. I think that is something that definitely could come our way in 2017.

Selman Akyol - Stifel Nicolaus - Analyst

Thanks for the additional color. Appreciate it.

Operator

Thank you. And our next question comes from Helen Ryoo of Barclays. Your line is now open.

Helen Ryoo - Barclays Capital - Analyst

Thank you. Good morning. Appreciate the color on the maintenance CapEx. Just curious whether the amount of improvement, the magnitude of improvement you've seen at the Partnership level is consistent with what you've seen at the LLC level? If you could comment on maybe how the maintenance CapEx is trending upstairs.

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Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Those comments -- Helen, this is Sean. The comments Wouter made are really enterprise-wide. We've seen massive improvements. As he talks about improvements in reliability, as he talks about lower loss profit opportunity, he was really referencing the full enterprise. We've seen those improvements at the top just as much, if not more so, as we have seen at the DPM level.

Some of that is because if you think about the composite of the assets, we have a lot more NGL logistics assets at DPM. Those are less maintenance intensive. We also have of newer assets sitting at DMP. A lot of opportunity, although we have seen a bunch of improvement at DPM, we've seen significant improvement at LLC. His comments earlier about the owners making very strong references around the quarter that we had up there, again reliability one of the drivers there.

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

Yes. I think, Helen, I just want to remind you, and I think you know this, but we are running this entity, these two entities as one Company, as one entity. So people that are working in the fields, they don't know is this a DPM asset or is this a LLC asset. Everything that we do around the DCP 2020 strategy, the initiatives that we are focusing people on, the expectations that we have as it pertains to reliability, operating performance, safety, all of those are the same throughout the system. I think you can draw definitely that the parallels there, that everything you see happening at DPM you're seeing the same happening at LLC.

Helen Ryoo - *Barclays Capital - Analyst*

Got it. Very helpful. And then your page 8 shows the mix of fee cash flow versus commodity exposed cash flow at DPM. What is that look like at the enterprise level, if you could provide some color? And then if you need to hedge the enterprise level commodity exposure, given the depth of that commodity, the derivative market, how much of the exposure do expect to be able to hedge?

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

Helen, I'm very glad you gave me the opportunity to talk about something that it's pretty exciting at the Company. We -- obviously page 8 we focus on DPM. As you think about the LLC and the consolidated Company, similar to Wouter's comments he just made, same thing is happening for the first time since I've been here, we have hedged -- we have put a program in place to start hedging the position at the top. And as we sit here today we are about 19%, 20% of LLC's open position has actually now has crude gas and NGL hedges. We are excited about that. That's a huge change in stabilizing the cash flows at the top.

The other thing that as you think about, hey, what does it look like in LLC? Remember with the owner contribution of one-third of Sand and Southern Hills, those are fee-based assets that sit up at LLC now. Those have moved our fee-based percentage up significantly up at the top. I would tell you at the top we are seeing numbers, just to give you some estimates, of the fee-based portion of the margin at LLC to being around 60%. That is a huge increase from where you go back five years where it were closer to 20%. And now with the hedges in place, you are seeing about, of that open 40%, about 8% to 10% of that now hedged. Long answer, but at the end of the day we are about 70% [fee or] hedged at the top.

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

I think the other thing, Helen, that I would like to add to this, Don Baldrige and the commercial team have been working for two years on our contract realignment initiative. That has thrown a tremendous amount of dollars to the bottom line. And that is where our people focus on a lot. But the other piece of what that exercise was is taking some of our commodity lines out and converting some of the open commodity position into more fee-based. If you take the hedges that Sean spoke about it, if you take the additional one-third of Sand and Southern Hills, and you then take the contract realignment initiative together it has really had a very significant impact.



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Helen Ryoo - *Barclays Capital - Analyst*

Is the contract realignment initiative still going on? Could that 70% or 60% pre-hedge fee-based mix, could that ultimately go up to a meaningfully higher number, given what you try to do right now, or is that pretty much (multiple speakers)?

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

We are two years into this. And this was a three-year program that we looked at. Our goal was to get \$200 million after three years. If you're thinking where we're sitting here today after two years, it's about \$160 million that we've realized.

From a financial point of view it is fairly significantly. There are some opportunities left. But I think the big pieces we have done. We have other contracts that either will come due over time, and then maybe we can go after them at that time. And there is a number of contracts that we are really happy with and we would like to keep in place. For instance, the contract portfolio that we have in the DJ Basin. Those are PLPs, percent of proceeds contract. They're life of lease contracts, and we are very, very happy with those contracts. And we would never convert those contracts.

Helen Ryoo - *Barclays Capital - Analyst*

Got it. And then lastly. Wouter, you mentioned you're having targeted discussions with the producers. And it seems like there's more opportunity in DJ and Permian. And number one, in terms of timing, I guess, if you need to put in more plants, given the lead time if you commissioned a project, would be more like a 2018 in-service plant if you end up doing that? And then secondly, DPM doesn't have presence in Permian yet, but if you were to build a plant out there, could it be a DPM level project, even though the rest of the assets are at the (technical difficulties)?

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

Yes. Those are quite a couple of questions. Let me try to hit them all. If I forget one, please let's come back on it. Let me start with your timing on plants in the DJ. Yes, you're probably looking at 2018 from that point of view if you need to get permits, your construction cycle. But I think is very important, though, is you have to not only focus on plants, and I know that everybody wants to focus on what is the new plant. But think about all the optimization opportunities that we have done in the last year and that we're thinking we can continue to do in 2017 and things that will continue to add capacity.

Think about the Grand Parkway. We did the first piece. We have other opportunities with Phase 2 and Phase 3 of the Grand Parkway. We have bypasses where you can create \$20, million, \$30 million \$40 million of capacity at a plant fairly cost efficient and fairly quickly. You could do optimization in the field. We have done all of those kinds of things. And we have a bunch of opportunity to do those in 2017 in the DJ, getting you very low cost, high return capacity in place. I think that is very attractive about what you can do there.

Now let's switch over to the Permian. When we build Zia II we set it up in a way that we could potentially build other plants next to that. There's an opportunity there. Could those be DPM plants? Absolutely. I think if you look at what we have done historical over the last year or two or so, most of the growth that we have done we've done at the DPM level. So there's definitely an opportunity. What I think it's really important, though, again talking about the Permian Basin is people tend to focus, what is your next plant that you're building? I would like to focus you on our NGL business in the Permian.

We're the largest NGL producer in the country. We are the third largest NGL pipeline operator. If you take a look what we have done with Sand Hills in the Permian Basin, a lot of people are building new plants, third-party plants. We are connecting a very, very significant number of those plants. That is very low cost, very high margin product that we are bringing in. We are playing the Delaware Basin, not only by the gathering the processing side of the house, but we're doing it also very, very significantly by the NGL side of the house. That benefits DPM Because a third of Sand Hill is sitting in DPM. It benefits LLC because a third of Sand Hill is sitting in LLC.



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Helen Ryoo - *Barclays Capital - Analyst*

Got it. And then Sand Hill, is that being expanded to 350,000 barrels next year?

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

We've not announced if and when we would be expanding it. We're at 280,000 today. We believe we can expand it to probably full capacity, let's call it 360,000 barrels per day. And we definitely think there's some good opportunities to go that route, and go that route in a reasonably expedient manner.

Helen Ryoo - *Barclays Capital - Analyst*

Got it. All right. Thank you very much.

Operator

Thank you. And our next question comes from Chris Sighinolfi of Jefferies. Your line is now open.

Chris Sighinolfi - *Jefferies LLC - Analyst*

Good morning, guys. Just a couple questions for me. I guess to start, this is more of a follow-up question to clarify something Jeremy was asking about. Sean, the 2017 NGL hedges at \$0.75 a gallon which were added last quarter. I believe you said to Jeremy that those were net to your barrel composition. I was just curious, A, did I hear that right? And then, B, is it possible you tell us or disclose what the barrel composition is, just because that is pretty well above the Belvieu price was last quarter. So I'm assuming it's the heavy-weighted barrel. I just don't remember offhand if you have given us that before and what it is.

Sean O'Brien - *DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners*

I don't know that we have given the full composite before. We are heavier, that is true. That is correct. When we're hedging our position obviously we're obviously our direct position. That was the benefit I was referencing, Chris, about the ability of the liquidity of the market and how to get in and actually hedge the component. As we are hedging our direct component, since we have a heavier barrel, you'll see sort of a little bit of a higher price. I will say that we also -- we are very advantageous as we put those hedges on, takes some very good timing as well, which drove obviously higher prices across the board. That wasn't just on the NGL. But we are usually -- we are definitely heavier ethane and propane. We are more weighted that way. And then we have obviously a heavier CF-plus percentage as well.

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

I think, Chris, if you kind of look at it on average, and we tend to right now hedge the propane, the butanes and the natural gasolines. That is really where most of the hedging program is sitting today. That is why things are skewed a little bit to the heavier side.

Chris Sighinolfi - *Jefferies LLC - Analyst*

Okay. Perfect. That was my suspicion. So just wanted to make sure I was marking it consistent with that. Thanks for that. I guess the second thing about it, the slides are very helpful. Obviously you've had some changes in the slide presentation over the course of the year. I just wanted to ask, you had a focus on -- you've been focused on, the team's been focused it, the cost discipline across the family. If I look at last quarter's slides you

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had indicated that there was about a \$6 million improvement year on year in cost 2Q versus 2Q. We see on today's slide there is about a \$10 million improvement year on year 3Q to 3Q. I'm just wondering, obviously positive trajectory there. I'm wondering any color from you as to things that maybe still weren't fully represented in 3Q? Where do you think that that cost improvement might take us in 4Q and into 2017?

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

I appreciate the comments, Chris. Let me maybe can you give you a little bit of history and talk about what we have done. I will talk about the enterprise as a whole. If you take a look at our NGL breakeven, we were in 2014 we were sitting at about \$0.60. Then we went from 2014 to 2015, we went to \$0.42. That is a 30% improvement. Than our goal for 2016 was to go to \$0.35. And we thought that was a pretty sporty goal, it was another \$0.17 improvement. As of today we are sitting at \$0.31. Think about that. Going from \$0.40 to \$0.35 is a pretty stout improvement. And the team has actually outperformed itself very significantly, and we're sitting at \$0.31 here today. What does that mean?

It basically means that slide will continues to go a bit faster and that you hope to get more run rate into your numbers here in the third quarter to fourth quarter. And then in 2017 hopefully you continue to see that run rate. Our goal really is to make sure, how can you keep all this? Because taking cost of the organization, A, you have to make sure you continue to run well. And I think we've proven that to everybody, that our assets actually are running better while we are spending less money. Then the question is, if the industry goes into some type of recovery, can to hang onto those cost savings? And that is something we are very, very focused on, making sure we can hang onto those cost savings, that they are not temporarily. But that it really gives you a tremendous amount of leverage coming out of this cycle and then into 2017 and 2018.

Chris Sighinolfi - Jefferies LLC - Analyst

And is that done primarily through the contracting side you -- in terms of retention of that cost extraction, is there a particular thing within how you are operating that you see as sort of the mechanism to preserve that for DPM? Is that the contract side? Is it something else?

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

I think it's really what you're talking about. How do you work? Work process, you have to change work processes. Just getting less people into your organization, that may give you a temporary blip. But if you don't change how you work, the type of work that you do you're not going to be able to capture your cost savings. That is part of when we talk about DCP 2020 and our strategy of operational excellence, focusing people on reliability and things like that. It really kind of changes how we do the work. What we are trying to do is lasting work process changes. Working smarter, not just working harder. And that is what we want to make sure that we can keep into 2017. And I'm pretty confident about it, confident around it.

Chris Sighinolfi - Jefferies LLC - Analyst

Okay. Thanks so much. Final question. Sean, there is. I think the next debt maturity is it about 13 months from now. Just curious. Obviously you guys have made a lot of headway, sort of keeping the leverage low. The asset sales have helped clear out a lot of the revolver borrowing capacity. Just wondering what we should expect to see from you as to how and when you might address the next maturity? Thanks.

Sean O'Brien - DCP Midstream Partners LP - CFO of DCP Midstream and DCP Midstream Partners

Chris, I think you bring up great points. We are down quite a bit on our revolver. Cash generation is up significantly. So in a really good spot. We also have quite a bit of capacity on the revolver. What I would tell you is, in terms of the maturity in December 2017 we have a lot of flexibility. We have a little bit of time. We're got room on the revolver. At the end of the day, whether we take that out or whether we just reduce it, the good news is we have a lot of optionality on how we want to handle it.



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Chris Sighinolfi - *Jefferies LLC - Analyst*

Okay, great. Thanks so much for the time.

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

Thanks, Chris.

Operator

Thank you. And our next question comes from Jerren Holder of Goldman Sachs. Your line is now open.

Jerren Holder - *Goldman Sachs - Analyst*

Thanks. Good morning. Earlier this year you guys had a great slide on ethane rejection. Was just wondering if you guys had updated thoughts there?

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

Thank you for the comment. We agree. I think that was a good way to lay things out, especially [the confusion] that there was probably in the market over the last number of quarters. We continue to be positive around that.

I think there is no real update to it, other than we are getting closer to these crackers coming online. But it's still a, call it mid, late 2017 event going in to 2018. I still believe that -- I think if you take a look at all the numbers, look at the DCP enterprise footprint, that we're tremendously well positioned around that [asset] coming to market and how we can work that and play that on our gathering processing site of the house between having areas that are located close to the market center, as well as on our NGL pipeline side of the house.

We didn't give the update this time because we thought we have spent a good amount of time with all of you around the education process, where is the ethane going to come from, what ethane is going to find itself to Mont Belvieu first. But overall we still very confident about this will happen. This is not a matter of if it will happen. It's a matter of when it will happen. And it's significant upside for the enterprise. Like as I said earlier, it's probably \$70 million to \$100 million of upside for us.

Jerren Holder - *Goldman Sachs - Analyst*

Great. And to the degree that perhaps Conway to Belvieu spreads may widen as a result as Belvieu prices rise and perhaps Conway does not as much, does your Southern Hill pipeline, is there a potential benefit there, whether it's increased third-party volumes or you guys using equity volumes from capturing that margin, how do you think about that?

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

I think there's probably some opportunity around that. Don and the team are always focusing on what are kind of some inefficiencies in the market. And making sure that they can react to those fairly quickly. Between our Conway position, a Belvieu position we definitely can benefit if there are temporary imbalances in any way, shape or form.



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Jerren Holder - *Goldman Sachs - Analyst*

And last question for me. Obviously a lot of excitement about the stack and the scoop. How do you think of, once again, your Southern Hills pipeline being competitive with, say, One Oak and other guys with pipe assets in that region as production grows?

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

I think our pipe is very competitive. But I wouldn't focus on just the pipe. We didn't talk a lot about the stack and the scoop per se here in this call. All the assets that are sitting in the stack and the scoop and in the Mid-continent are sitting in LLC, in the private entity. We are the largest gas processor in the Mid-continent.

We have a very strong position in the stack and the scoop. We have -- we are pretty much full in the Eastern Mid-continent where the stack and scoop is sitting. To the Western Mid-Continent we have some processing capacity available. We have five available for NGL takeaway. Our team is really focusing, how can we make sure that we take some of that steel that's in the ground in the Western Mid-continent? Can we utilize that to take additional volumes out of the stack and the scoop? So I think it presents some pretty good opportunities for us as well.

Jerren Holder - *Goldman Sachs - Analyst*

And I guess lastly, you have seen some pretty high multiples in terms of transactions around stack assets. And to your point, you have lots of assets available there. Any thoughts on maybe taking advantage, maybe selling some non-core assets or anything along those lines, whether at the DCP LLC level? How do you think about that balance?

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

Yes. Take it a little broader about selling as a whole. You talk about high multiples. I want to going to remind you, we believe of quite high multiple on the North LA assets that we sold. We are definitely opportunistic around areas that we believe are non-core to the portfolio and getting some fairly significant multiples and proceeds for those.

If you take a look around at Mid-continent area and the stack and the scoop area and what we have. And we really look at that as a core area for us where we can continue to have very significant growth. I'm like never say never on any type of acquisition or disposition, but it's not something that we are looking at and saying, hey, we need to sell some of those assets. We like those assets. They can make great money for us. They're integrated assets from a G&P and NGL point of view. So great competitive opportunity for us there.

Jerren Holder - *Goldman Sachs - Analyst*

Great. I appreciate the comments. Thank you.

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

Thank you.

Operator

Thank you, and I'm showing no further questions at this time. I'd like to turn the conference back over to Andrea Attel for closing remarks.



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Andrea Attel - DCP Midstream Partners LP - Director of IR

Thanks Candace, and thank you everyone for joining us today. If you have any follow-up questions, please feel free to give me a call. And have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Have a great day everyone.

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