DCP MIDSTREAM PARTNERS
"Fourth Quarter and Year End 2009 Earnings Release Conference Call"

March 4, 2010, 10:00 AM EST
Karen Quast
Mark Borer
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OPERATOR: Good morning, and welcome to the DCP Midstream Partners fourth quarter and year end 2009 earnings conference call. All participants are in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing star, then zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Karen Quast. Please go ahead, ma'am.

KAREN QUAST: Thank you, Andrea. Good morning, and welcome to the DCP Midstream Partners fourth quarter and year end 2009 earnings release conference call. As always, we want to thank you for your interest in the partnership. Today you will hear from Mark Borer, President and Chief Executive Officer, and Angela Minas, Vice President and Chief Financial Officer.

Before turning it over to Mark, I'll mention a couple of items. First, all of the slides we'll be talking from today are available on our website at www.dcppartners.com in pdf format. You may access them by clicking on the investor page and then the webcast icon.

Next I'd like to remind you that our discussion today may contain 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 and lists some of the risk factors that may affect actual results. For a complete listing of the risk factors that may impact our business results, please review our Form 10-K for the year ended December 31, 2008, as filed with the SEC on March 5, 2009, and updated through subsequent SEC filings.

In addition, during our discussion we will use various non-GAAP measures, including distributable cash flow and adjusted EBITDA. These measures are reconciled to the nearest GAAP measure in schedules provided on our website. We ask that you review that information as well.

And, finally, a note about the presentation of our earnings. In April 2009 the partnership completed the acquisition of an additional 25.1 percent interest in DCP East Texas Holdings, LLC, or East Texas, from DCP Midstream, LLC. Prior to this transaction, the partnership owned a 25 percent interest, which was accounted for under the equity method. Subsequent to this transaction, the partnership owns a 50.1 percent interest in East Texas and accounts for East Texas as a consolidated subsidiary. The results of operations presented today include the historical consolidated results of East Texas for all periods presented. For comparison purposes, we have also included our 2008 historical results as reported in 2008 when our ownership in East Texas was 25 percent.

And now I'll turn it over to Mark Borer.

MARK BORER: Thanks, Karen. Good morning, everyone, and thanks for joining us today. Let me start by saying what a difference a year makes. While late 2008 and all of 2009 presented one of the most challenging economic environments in recent history, we were pleased to report last evening fourth quarter and year-end results which nicely exceeded our increased guidance we had provided on our third quarter call. The partnership entered the year living the stress case; however, the resiliency of our business model, combined with the disciplined execution of our business plan, provided solid results. 2009 was a very good year for the partnership and its investors.

On Slide 3, you will see our agenda for this morning. I will begin by recapping our successful year, and then we'll provide an operational update. Angela will follow with a review of our fourth quarter and annual performance and provide an update to our 2010 DCF forecast. We will close with our outlook for 2010. We believe we are favorably positioned as we move through 2010 and beyond.

Slide 4 outlines our 2009 business plan, which we first laid out in December of 2008. Much of this plan was predicated on navigating through a difficult business environment. It has certainly been a challenging year, but one that clearly demonstrates the strength of our business model and a disciplined focus on delivering what we committed. As reported in our last quarter call, we delivered on all elements of our original plan. Since then, we have added some quality accomplishments that provide a strong finish to 2009 and a very good start to 2010.

In November, we closed at $45 million acquisition of fee-based gathering and treating assets in Michigan. These assets fit hand in glove with the assets we purchased in October of 2008. At that time, we had indicated that we believe the acquisition would provide future growth opportunities, so, again, a demonstration that we are delivering on our commitments. In conjunction with the acquisition, we received proceeds of $70 million from a successful equity offering. The offering, which was well received by both retail and institutional investors, provides us with the financial flexibility to continue to actively pursue growth opportunities.

In December, we announced that we received an investment-grade rating from Standard & Poor's. This marks a milestone in our business plan, as this has been a stated goal since our IPO. We had previously indicated that our targeted timing for achieving investment grade was prior to the maturity of our credit facility in mid-2012, so, as you can see, this is well ahead of target. The investment-grade rating speaks to the strength of our business model, asset base, and performance, as well as the strength of our sponsorship. We believe that investment-grade rating can be a differentiator as we continue to grow the business, helping to provide a competitive cost to capital and significantly improving our access to capital markets. We are certainly proud of this accomplishment.

In January, we announced a $22 million fee-based NGL pipeline acquisition and related $18 million capital project that is part of a larger strategic investment by the DCP enterprise in the Denver-Julesburg, or normally referred to as the DJ, Basin. Most recently, we executed on an opportunity to buy out Delta Petroleum's 5 percent interest in our Piceance Basin joint venture, increasing our ownership in the system to 75 percent.

Turning to Slide 5, let's discuss some quarter and full-year highlights. We generated distributable cash flow of $35.7 million for the quarter and $107.5 million for the year. Our 2009 DCF results exceeded our original forecast by 30 percent and also exceeded the increased guidance of $95-plus million that we provided in our third quarter call. Our distribution coverage was strong, at 1.45 times for the quarter and 1.2 times for the year. Notwithstanding a weak economy and reduced drilling activity, we have achieved solid results and continue to build on the upward trend in DCF since our IPO.

As you will recall, our 2008 results included a couple of significant but temporary impacts from hurricanes and pipeline integrity work. Aside from that, we are pleased with the general upward trend this chart depicts and plan to continue to deliver growth in 2010 and beyond.

Our steady performance in delivering on our commitments this year has enabled us to deliver our unit holders one of the highest returns in the sector. Total unit holder return in 2009 was 260 percent compared with a total return for the Alerian Index of 76 percent and the S&P 500 Index of 26 percent; however, we are all well — are all aware, particularly with the recent unprecedented volatility in the capital markets, that a one-year snapshot is not representative of overall performance. It's about value creation over time. As we look at our total unit holder return since our IPO in December 2005, we have provided a 90 percent return, which compares quite favorably to both the Alerian at 55 percent and the S&P at a negative 4 percent. In summary, we believe our solid results of 2009 continue to build a proven track record of success.

Turning to Slide 6, you will see a recap of our recent acquisitions and capital projects that provide a solid foundation for future growth. Consistent with our strategy since the IPO, there is a balance between organic growth, dropdowns from DCP Midstream, and third-party acquisitions.

Starting with organic growth, we completed our East Texas gathering system expansion in the second quarter. Also in the second quarter, Discovery's Tahiti platform began flowing gas. In the fourth quarter, we completed the last steps on our Piceance Basin gathering expansion, which is partially supported by shipper pay contracts.

Moving to dropdowns, we completed the acquisition of another 25 percent of the East Texas joint venture from DCP Midstream on April 1, in a transaction that demonstrated the support of our general partner. As the business environment began to improve in the latter part of the year and capital markets reopened, we have also seen an improving acquisition market, as evidenced by our recent transactions. The three transactions we have completed since early November total approximately $70 million of investment and are each very complementary to our asset base, improve our competitive positioning, and provide 100 percent fee-based earnings.

With respect to the Michigan and Wattenberg pipeline acquisitions, 2010 is an integration year, with both providing attractive cash flow contributions once they are fully integrated by early 2011.

The Piceance Basin investment is simply an increase in our ownership interest, so cash flows increase — cash flow increases are immediate, with potential future upside consistent with our overall investment there.

If you will now turn to Slide 7, I will provide a brief operational update, starting first with our natural gas services segment. As is evident again this quarter, we view our diverse geographic footprint as a strong positive, as it provides us with access to multiple resource plays, contract types, and customers. This business generates margins from a mix of fee- and commodity-based businesses, with our commodity position substantially hedged. We expanded our position in this segment in 2009 with the acquisition of Michigan and three organic growth projects, including the Tahiti expansion at Discovery.

We've been diligent in capturing cost savings across all our assets this year, with most of the benefits showing up in this segment. Gas throughput volumes for gathering and processing assets are down about 2 percent on a sequential quarter basis. While rate count activity is still considerably below 2008 levels, we are beginning to experience a modest recount recovery from the lows we experienced in mid-2009.

NGL production is up on a sequential quarter basis by approximately 7 percent. NGL production was bolstered by the richness of the Tahiti gas on Discovery, as well as increased NGL recoveries at our Piceance Basin system. With our percent of liquids contracts and fees tied to the level of NGL production at a number of our assets, the increased volume provides added margins for the business. We are pleased with the overall performance of this segment.

Now, if you'll move to Slide 8, I'll provide some additional details on our recent acquisition in Michigan, which closed in November. As you can see from the map, our new assets, depicted in red, are complementary to our existing assets, depicted in blue. The new assets include four treating plants with combined treating capacity of approximately 165 million cubic feet a day and over 170 miles of gathering lines. These assets are in some cases already interconnected with our existing facilities. As such, we expect to see operating synergies and opportunities to consolidate treating plant infrastructure. This acquisition has many elements that make it an attractive MLP investment, notably, 100 percent of the margins are fee based. The assets provide essential services for the long-lived gas produced from the Antrim Shale formation. This acquisition is an example of our ability to enter a new basin and build upon that position.

Now, moving to Slide 9, in our wholesale propane segment, we are experiencing a strong winter heating season. Sales volumes for the quarter and year to date are up 9 percent and 6 percent, respectively, over the prior year. With the uptick in our fourth quarter sales reflecting positively on our reliable performance, this business has a key competitive advantage with its breadth of supply options, which not only supply our base business, but allow us to capture upside opportunities during favorable marketing conditions. Our business model continues to perform very well here, and we continue to look for opportunities to expand into new markets.

Now, moving to Slide 10 for our NGL logistics segment, our pipeline volumes were up in the latter half of the year as we connected new supply to our Seabreeze pipeline, taking advantage of an attractive market opportunity. These assets provide 100 percent fee-based earnings and provide a good complement to our portfolio. We see opportunities to grow this business, as evidenced by our recent NGL pipeline acquisition and associated expansion capital project on Slide 11.

The map depicts our new NGL pipeline and its strategic position adjacent to DCP Midstream's gathering and processing assets. The 350-mile pipeline originates in the DJ Basin in Colorado and terminates near the Conway hub in Bushton, Kansas. DCP Midstream, the owner of our general partner, currently utilizes the NGL pipeline as a market outlet for NGL production from certain of its plants in the basin. Midstream, the largest gatherer and processor in the basin, is investing capital to accommodate the growing demand from its producers for natural gas gathering and processing capacity. Its capital investment includes a new natural gas processing plant, which is expected to be completed by early 201, and a new large-diameter natural gas gathering pipeline. We will spend approximately $18 million of expansion capital to connect and integrate the pipeline with Midstream's facilities. Midstream and the partnership will enter into a ten-year transportation agreement for the expected growth in NGL volumes resulting from the expansion. We expect cash flow contributions commencing early 2011. The 100 percent fee-based margin profile of this pipeline is an excellent fit with our asset portfolio. This is a great example of utilizing the partnership as the growth vehicle to expand the DCP enterprise footprint.

Now I'll turn it over to Angela to review the financial results.

ANGELA MINAS: Thanks, Mark, and thank you all for joining us today.

On Slide 12, we begin with the consolidated financial results. Results are adjusted to remove the impact of non-cash mark-to-market activities of our commodity hedges, which are outlined in the appendix, as well as the non-controlling interest in our joint ventures. In addition to the consolidated results, which are required to be recast, we also show the results as recorded in 2008, which reflect trends and results achieved over time. As such, I'll generally be discussing the results as reported in 2008 as the basis for comparison.

Adjusted EBITDA increased from $10.8 million to $43.4 million for the quarter and from $87 million to $146.2 million for the year. Both the quarterly and annual figures were the highest since inception of the partnership. Each segment contributed to that outcome as each also posted their highest segment numbers. Fourth quarter 2008 results were significantly impacted by the hurricanes and a non-cash inventory write-down of [inaudible] for our wholesale propane business. 2009 results include the impact from operational downtime and our Discovery and East Texas assets in the first quarter.

Distributable cash flow for the quarter increased from $10.4 million to $35.7 million, resulting in a 1.45 times coverage ratio for the quarter. Annual DCF increased from $77.8 million to $107.5 million, resulting in a 1.2 times coverage ratio for the year. For the year, operating and maintenance expense declined by 10 percent and G&A by 3 percent, largely driven by our cost reduction efforts.

Moving to Slide 13 for a review of natural gas services segment results, adjusted EBITDA increased from $19.8 million to $39.4 million for the quarter and from $103.9 million to $132.4 million for the year. Results for the year were positively impacted by the addition of our East Texas and Michigan acquisitions, increased NGL production, and reduced operating costs, which were partially offset by lower gas throughput volumes at certain assets.

Results for '09 included the impact of operational downtime at our Discovery and East Texas assets in the first quarter. Results for the first nine months of '08 reflect a much stronger commodity price, drilling, and processing environment than the same period in '09, while the fourth quarter of '08 was significantly impacted by hurricanes.

Our equity investment represents our 40 percent interest in Discovery. 2009 results reflect the addition of Tahiti volumes and the impact of the hurricanes, with repairs completed in the first quarter. The first quarter of '08 was also impacted — the fourth quarter of '08 was also impacted by the hurricanes. As a reminder, hedge settlements for Discovery reside in the adjusted segment gross margin lines. These results demonstrate the resiliency of our cash flows in dramatically different commodity price and economic environments.

Slide 14 indicates the results from our wholesale propane segment. As a reminder, this segment does have some seasonality, with the majority of the earnings coming during the fourth and first quarters. Favorable unit margins, along with increased volumes, resulted in record adjusted EBITDA for both the quarter and the calendar year. As a cautionary note, however, calendar year comparisons can be misleading due to inventory cost write-downs and recovery through the sale of inventory in different periods. As such, we view the fiscal year or the heating season, April 1 to March 31, to be a more relevant comparison, as those pluses and minuses tend to be offset within the season.

The graphic on this slide depicts adjusted EBITDA by fiscal year or heating season and illustrates the steady growth trend. For the three quarters so far this heating season, this business has delivered $14.9 million of adjusted EBITDA, which we believe positions us well for continued growth trend again this heating season.

This business is comprised of a base business of annual term contracts and opportunistic marketing. The arrow is meant to provide a pictorial of growth in the base business, with marketing opportunities providing incremental upside in favorable environments.

On Slide 15, our NGL logistics business also delivered record EBITDA results for both the quarter and the year, continuing the steady growth trend illustrated since our IPO. EBITDA increased substantially for the quarter as a result of higher unit margins and volumes. 2009 EBITDA increased by $1.4 million, reflecting higher unit margins partially offset by lower volumes, which were impacted by ethane rejection and lower volumes from certain connected processing plants in the first half of the year.

Slide 16 compares 2009 DCF results to the forecast we first introduced in December of 2008 and the updated guidance we provided in our last call. The 2009 average crude oil price of approximately $62, an NGL-to-crude relationship of approximately 55 percent for the year, placed us in the original forecast range of $75 [million] to $90 million, as highlighted in the chart. In our Q3 call, we raised the minimum to $95 million based on strong results to date. Our actual DCF for the year was $107.5 million, which is $25 million, or 30 percent, above the midpoint of the original range, providing distribution coverage of 1.2 times. Numerous factors helped to contribute to the $25 million increase from our original assumptions — higher wholesale propane results; cost reductions in operating expense, maintenance capital and G&A; lower interest expense driven by the lower rate environment and working capital management, as well as the one-time acceleration of Discovery's distribution to match the timing of earnings realization. These factors more than offset the reduced drilling environment in general and the impact of the third-party pipeline incident in East Texas. Given the particularly challenging environment over the past twelve months, we are pleased with our results.

Slide 17 provides our 2010 DCF forecast, which has been updated as part of our annual budget cycle. Crude price scenarios reflect recent trading ranges. Natural gas price, which results in only limited commodity price sensitivity, is assumed to be 550 in each case. If you take into account the commodity prices year to date and the forward price curve for the balance of 2010, the table would indicate 2010 DCF between $110 [million] and $130 million, providing a distribution coverage of 1.1 to 1.3 at our current $98 [million] distribution level. This forecast also assumes organic expansion capital of $30 [million] to $35 million and maintenance capital of $10 [million] to $15 million. We're actively reviewing growth opportunities and believe that there could be additional bolt-on opportunities that could increase the expansion capital up to $100 million, consistent with our estimate of annual opportunities in our footprint.

This forecast excludes the impact of potential acquisitions or any unannounced organic expansion projects. The midpoint of our forecast is predicated on the current drilling environment and a weak-to-moderate outlook for energy demand. The assumptions include natural gas and NGL volumes that are flat to slightly declining from '09 levels, a wholesale propane profile that is robust but does not include the record upside achieved last year, and an NGL logistics profile that is flat to slightly increasing. If the pace of drilling in our footprint were to increase and a recovering economy were to stimulate energy demands to pre-recession levels, we would expect our base business to achieve results at the higher end of the ranges.

As we look at our base business beyond 2010, we would forecast additional cash flow contributions as the Wattenberg integration and expansion are completed in early 2011 and as we move beyond the integration of Michigan's acquisition and more fully realize the synergy benefits. As you can see, our base business provides healthy distribution coverage in the current environment. Key to our distributable cash flow performance is the nature of our contracts and our commodity hedging program, with updates on Slide

18 to reflect 2010. At current commodity prices, we estimate approximately 56 percent of our forecasted margin is fee based. Of the commodity-based margins, we have hedged over 80 percent of our equity position in natural gas, liquids, condensate, and natural gas. This results in over 90 percent of our 2010 margins being fee based or supported by commodity hedges. Our 2010 position is part of a multiyear hedging program that currently extends through 2014. Our positions and average swap prices are included in the appendix. Given our contract mix and the hedges we have in place, we've updated our annualized sensitivity as we've shown on this slide, which are substantially similar to those of 2009. As cited by S&P, with our recent investment-grade rating announcement, our sizable fee-based revenues, and multiyear hedging policy — our key strength's in our financial position, which I'll discuss on Slide 19.

As you will recall, our plan since our IPO has been to obtain an investment-grade rating prior to the maturity of our credit facility in June 2012. Given the recent capital market environment, we believe there are certainly benefits to doing so earlier rather than later with respect to both cost of capital and access to capital. We are pleased to have been able to achieve our S&P BBB-/Stable investment-grade rating well ahead of our targeted timetable. We have a plan to obtain ratings from other agencies and will keep you informed as we progress.

As we look into 2010 and beyond and consider our growth outlook, which Mark will discuss, a key element of that is our financial positioning. We're committed to a financing strategy that maintains a strong capital structure and significant liquidity to enable us to execute our growth strategy. Our available credit facility is more than adequate to support our 2010 forecast and committed capital spending. Additionally, we believe we have access to other sources of capital at a competitive cost to support growth. Our successful November equity offering demonstrates our ability to access the equity markets, and our investment-grade plan positions us well to access the public debt markets.

With respect to transitioning to long-term financing, we will take a strategic and disciplined approach, which will balance and liquidity and the interest rate environment with the attractive terms of our existing credit facility. As with our equity offering, financing in conjunction with growth is also a consideration. In summary, we continue to execute disciplined financial management while maintaining a flexible approach to future scenarios.

Slide 20 provides a summary of our credit facility and liquidity position. We have an excellent $825 million credit facility that extends through June 2012. At the end of the year we had drawn $603 million, resulting in available capacity of $222 million. Looking out into 2010 and factoring in cash expected to be generated by the business, the $30 [million] to $35 million in organic expansion capital for committed projects, including Wattenberg, and the seasonality of working capital requirements, we would expect this level of available capacity to be representative of what we would maintain over the course of the year, given our forecast of the base business.

Our cost of debt is highly competitive, with the interest rate on our revolver currently at LIBOR plus 44 basis points. Similar to our view on commodity risk management, we utilize interest rate hedges to provide cash flow stability. Our current hedge position on $575 million of our revolver provides us with an effective pre-spread borrowing rate of 3.8 percent to 4.2 percent over the 2010 to 2012 period. We're comfortably within our debt covenants. At the end of the quarter, our leverage ratio was 3.7 times compared to the maximum allowable of 5.5. Interest coverage ratio was 5.9 times. We have maintained liquidity in credit metrics consistent with our investment-grade rating and plan to continue to do so in the future.

And now I will turn it back over to Mark.

MARK BORER: Thanks, Angela. I spoke earlier about our recent acquisitions and capital projects that provide a foundation for continued future growth. Now, turning to Slide 21, I will give you some insights on how we are thinking about future growth opportunities and the environment.

As we look into 2010 and beyond, we see a variety of growth opportunities across our business segments and expect this growth to include a healthy mix of fee-based assets. In natural gas services, we expect to see an improved drilling environment, including an expanding application of horizontal drilling and improved completion techniques in a number of areas. The emerging shale plays will continue to provide infrastructure development opportunities. With relatively attractive crude oil pricing, we also expect to see continued strong deepwater offshore development around our Discovery asset, with additional planned producer connections.

Opportunities may also arise as a result of potential divestitures by the majors and E&P companies, as well as bolt-on acquisitions in and around our footprint. In our NGL logistics business, sources of growth are similar with respect to potential opportunities created through the shale plays, requiring infrastructure development and the majors potentially divesting assets. We will also continue to pursue future NGL logistics expansion around the DCP enterprise footprint, as we are doing in the DJ Basin and with our Seabreeze pipeline. In our growing wholesale propane business, we will pursue opportunities to expand our business through organic projects or terminal acquisitions. Finally, there may be opportunities for additional dropdowns from our sponsors.

The next slide translates our growth opportunities into our 2010 and longer-term goals for the partnership. As we do long-term value creation for our unit holders, it’s really about continuing to execute our multifaceted growth strategy. The growth opportunities I just discussed are consistent with our strategy and history since the IPO. The scale, scope, and capabilities of the DCP enterprise positions us well as we execute on the various aspects of our strategy. We have made significant progress over the past year on our financial positioning, which we believe will translate into an attractive cost to capital as we execute on growth.

We are focused as well on a return to distribution growth. As Angela discussed, based upon the current 2010 forward curve prices, the midpoint of our DCF forecast is $120 million, providing 1.2 times coverage and a 12 percent increase in DCF from 2009. This forecast does not include any acquisitions or material growth capital. Although we do not provide specific guidance on distribution growth, resuming distribution growth is a 2010 objective. Our long-term primary business objective has been, and remains, to provide stable and increasing cash distributions to our investors.

As we look to the future, we are targeting top quartile total shareholder return for our unit holders. Based upon current market expectations, we believe annual total shareholder return would need to be in the 12 to 15 percent range. With a 7 to 8 percent yield, that would imply annual distribution growth in the 5 to 7 percent range. We believe that this is achievable given the breadth of the DCP enterprise and its investment opportunities. We will continue to be disciplined in our approach and take a long-term view in growing the partnership and distribution to our unit holders.

Now, if you will turn to Slide 23, I would like to close this morning with a recap of some of the key points. First, we are pleased with our results this year, which have provided us with record DCF and 1.2 times distribution coverage. We successfully delivered on all the elements of our business plan and finished the year strong. We believe we are well positioned to continue to grow the partnership. We believe the strength of our business model, our geographic customer and contract diversity, and our long-term hedging program positions us well. We will continue to maintain a watchful eye on the overall business environment and will make adjustments in our plan as necessary. As we continue to grow the partnership, having the strong sponsorship from DCP Midstream, Specter Energy, and ConocoPhillips is a significant benefit to us and our unit holders.

That is the conclusion of our prepared remarks, so I'd first — I would like to first thank you for your interest in the partnership and then turn it back over to the operator for your questions. Thank you.

OPERATOR: Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a handset, we ask that you pick up the phone before pressing the keys. To withdraw your question, please press star, then 2. We will pause momentarily to assemble our roster.

Our first question comes from Michael Blum of Wells Fargo.

MICHAEL BLUM: Good morning, everybody.

MARK BORER: Good morning, Michael.

ANGELA MINAS: Good morning.

MICHAEL BLUM: Just a few questions. I guess, number one, can you just remind us what your targeted or comfort level is with the coverage ratio?

MARK BORER: Mike, this is Mark, Mike, good morning. As we discussed in the past, you know, we targeted a range, depending upon kind of the business environment at the time, of a range of 1.1 to 1.2 times, and obviously we'll take into account the environment and market conditions and, you know, overall economy as we look at distribution policy.

MICHAEL BLUM: Okay, and then as you consider the different levers you have for growth in the future, you had on Slide 6 where you laid out the percentages between what you've done historically in terms of third-party acquisitions versus dropdowns versus organic. Would you expect that mix will remain roughly the same, or do you see that changing over time?

MARK BORER: Michael, I believe that as you look at that, that's fairly representative. We do see the potential for the organic part of the pie to grow as we have strengthened our footprint and expanded it, but I think that's probably fairly representative.

MICHAEL BLUM: Okay, and I — my last question is just — just for point of clarification, on the Michigan acquisition and the NGL pipeline acquisition, for 2010, should we think of those as breakeven from a cash flow perspective and then accretive starting in 2011?

MARK BORER: Relative to both of those, the cash flows will kick up nicely in 2011. We do have a fair amount of integration in 2010, particularly around the NGL pipeline.

MICHAEL BLUM: Okay, but there is some base level of cash flow?

MARK BORER: Yes, there'll be some cash — there'll be some base cash flows, but, really, from a DCF, a significant contribution, it really begins to kick up in 2011.

ANGELA MINAS: And Michigan is accretive starting in 2010. There's some integration capital that we're spending in 2010, so higher cash flow in 2011 from that asset.

MICHAEL BLUM: Okay, thank you very much.

MARK BORER: Thank you.

OPERATOR: Our next question is from Andrew Gundlach of ASB. Please go ahead.

ANDREW GUNDLACH: Good morning. A couple of quick questions. The integration capital in Michigan and Wattenberg that you just referred to, would you consider that maintenance or growth capex? In other words, is it in the $30 [million] to $35 [million], or is it in the $10 [million] to $15 [million] that you pointed to earlier?

ANGELA MINAS: For Michigan, that capital is in the maintenance, and for Wattenberg, that $18 million is growth capital.

ANDREW GUNDLACH: Okay. Then following along on capital expenditures, you suggested that the $30 [million] to $35 [million] could gross up to as much as $100 [million] were the opportunities to present themselves. I assume one of those opportunities is the Eagle Ford Shale and you have not talked — spoken about that so far on the call. Could you give us some color on the $65 [million] to $70 [million] that you're thinking about, perhaps hoping for, and then also spend a little bit of time on the specifics of Eagle Ford and where you stand?

MARK BORER: Okay. First, relative to the $30 [million] to $35 [million], Andrew — good morning, by the way — they are really — that's really capital in and around our footprint, and as we think about additional capital, it's really about bolt-on opportunities around the footprint, some of which are characterized in our slide deck today as you look at activity in natural gas services, activity in the propane and the NGL logistics business. We have — we out — you know, relative to Eagle Ford, that position is primarily held at DCP Midstream. We do have some potential opportunities to expand our NGL logistic segment, but, as you think of — to feed the Eagle Ford or to take supply away from the Eagle Ford obviously, but, as you think about the $50 [million] to $100 million we've quoted, or the up to the $100 million of expansion capital, that's really more broadly around the DCP partners footprint, and it's not really necessarily focused at Eagle Ford. We may be able to do some complementary things in the Eagle Ford with DCP Midstream, but we think we also have some very quality investment opportunities around our asset base.

ANGELA MINAS: Also, let me just clarify back on Michigan — I'm just looking at my schedule again. Both of those we've classified as expansion capital being associated with the integration.

ANDREW GUNDLACH: That makes more sense, because there's obviously a return associated with it. And just following through on that, Wattenberg, if you add up the numbers, I guess it's about $40 million of acquisition plus spend. Is it fair to assume a 20 percent target return?

ANGELA MINAS: I think that's a fair assumption, yes.

ANDREW GUNDLACH: Okay, that's helpful. And then, Mark, if I can ask you to just clarify one thing on what you said about your goals to be in the top quartile of performance, and you referenced 15 percent total, 8 percent yield plus the dividend increase. That 15 [percent] is a target, perhaps an average over time, but not a cap in any one given year. In other words, were, really, game-changer opportunities to present themselves, there's no reason that that yield in any one year can't be substantially higher, with no plans to do so, but it just could happen that way. After all, you're small, and the assets around you are big. Can you give a little color on that?

MARK BORER: Andrew, I think that's a fair assessment. Obviously, growth can be lumpy over time. We look at that as a long-term objective, and as we — you know, it's not just market expectations. It's also what we believe that our, you know, opportunity set, so to speak, can provide us as we look out over time.

ANDREW GUNDLACH: Okay, last question, and thanks for answering that. When you think about your coverage, it is your intention to fund growth capital from the balance sheet or the issuance of securities over time, not to fund it from distributable cash flow. Is that correct also?

ANGELA MINAS: That's correct. We'd look to external sources of capital as the primary source of growth.

ANDREW GUNDLACH: I see, so as your DCF grows, you maintain a coverage ratio, but there's no policy to hold back the DCF in order to fund growth?

ANGELA MINAS: Right. That's correct.

ANDREW GUNDLACH: Great. Thank you so much.

MARK BORER: Thanks, Andrew.

OPERATOR: Our next question is from Selman Akyol of Stifel Nicolaus.

SELMAN AKYOL: Thank you. Good morning.

MARK BORER: Good morning.

SELMAN AKYOL: Just to follow — or a couple follow-up questions here. On Michigan and Wattenberg, you've characterized it as an integration year. Can you just specifically talk about some projects you have going on that — to do the integration or what the challenges are up there?

MARK BORER: Sure. Really, on — like on — this is Mark, and good morning — on Michigan, it's really about interconnecting some assets, integrating certain facilities, doing some upgrades on certain facilities. We also believe that we can consolidate certain of the treating facilities and really optimize the loading of the system. So, you know, it's pretty much blocking and tackling pretty straightforward type projects to do so. On the Wattenberg part of things, we will interconnect with some additional plants of DCP Midstream. We will also build several miles of NGL pipe to do so, and we will also be adding some pump stations — or a pump station in order to accommodate the increased volumes.

SELMAN AKYOL: Okay, thank you. And then if you take a look at your fee-based business, as you go forward in terms of your growth plans, is there any desired percentage you're trying to head to?

MARK BORER: We've had — we obviously — we've had some success, obviously, adding some nice fee-based assets. You know, I would say as we look at growth on a go-forward basis, we see the opportunities having more of a fee-based earnings attribute to them, so we have expectations that the percent of fee-based can and will increase over time.

SELMAN AKYOL: All right, and then my last question, I guess we've seen a couple other gathering of processors use more direct commodity hedges. Have you guys given thought to that?

MARK BORER: We've had some perfected hedges from an NGL viewpoint. We have generally — if you have listened to us in the past, obviously we have used crude oil relative to the propane-plus part of the barrel. We obviously have perfected hedges pretty much for the condensate as well as the natural gas. Relative to using crude oil for the propane-plus, we have felt that's provided us a better risk toward an overall return in most environments. We clearly have — working closely with our general partner, who has extensive NGL marketing and hedging capabilities, we do look at perfecting hedges from time to time, but at this point we have generally relied upon propane — or excuse me, crude oil hedges for the propane-plus part of the barrel.

ANGELA MINAS: And whereas the relationship of NGL to crude was lower last year, over the past few months we've actually benefited from having the crude swaps as opposed to the direct hedges.

SELMAN AKYOL: All right. Thank you very much.

MARK BORER: Thank you.

OPERATOR: Our next question is from Helen Ryoo of Barclays Capital.

HELEN RYOO: Yes, thank you. Good morning. Just a question on your propane segment. I think in the past you've talked about how this business generates fee-like earnings, and also there was a comment about, you know, marketing upside and favorable environment. Could you talk about, you know, what are those — some of the favorable environments that, you know, helps this business? I could see that weather is one of that, but, you know, just wondering whether, you know, propane price volatility or some other aspects that helps or, you know, hurts the business — if you could talk about that.

MARK BORER: Relative to — good morning, Helen — and relative to how we perform there and the upside opportunities, you know, we have a — we have the ability, because of the multi-prong strategy of import, rail, and pipeline supplies, both via Tepco and Buckeye. We have the very reliable supply portfolio, and we make very nice base pipe sales using a winter/summer ratio, so they are obviously seasonal, but we are able to give our customers good, attractive ratios on a winter/summer basis that are very competitive with others. And then as you think about things that can happen in this business, Helen, whether it be rail strikes or winter weather that backs up supply by rail, or if there's pro ration, so to speak, on the pipelines out of the Gulf Coast, it gives us opportunities to make increased spot sales that obviously can flex up and provide a peaking type sale if there are weather and market conditions that support that. So, as Angela depicted on her slide, we have a very nice profile of continuing growth relative to our base business, and then what we mean by the opportunity set — side — or the opportunistic side of things would be these shorter-term spot sales that we're able to help out a number of the retailers in meeting market demand on their system.

HELEN RYOO: Okay, that's very helpful. And is there any growth capex you spend on the propane side?

MARK BORER: The — one of the really nice attributes of the propane is that — I know you asked about growth capex, but once we have these facilities in place, we don't have much maintenance capex. Relative to the growth capex, we see opportunities — we're looking at opportunities to make terminal acquisitions or expand our footprint. You may recall, I guess it's two or three years ago now, where we built a new terminal in Midland, Pennsylvania, so that was growth capital at that time, and we see potential additional opportunities to expand the footprint and are working to do so.

HELEN RYOO: And would you say the return on your growth capex on this segment is as good as what you get on the natural gas services side?

MARK BORER: Yes, we think it brings attractive and comparable type returns.

HELEN RYOO: Okay, and then just a final —

MARK BORER: Just to finish that, Helen, and maybe amplify that, you know, once you have a — we have a very nice business model here, so when we make organic expansions, that would be more typical of organic growth capital around our footprint. Whether it is propane or NGL logistics or gas services, it's more attractive than acquisition type capital, so we have a nice base from which we can lever our business model and build from and really have attractive returns.

HELEN RYOO: Okay, and then just moving on, the — just to clarify, on the growth capex of $30 [million] to $35 [million], how much well-connect cost is included in that number?

MARK BORER: That would be pretty limited, because the bulk of the well-connect capital is really — really shows up in our maintenance capital.

HELEN RYOO: Okay, got it. All right, thank you very much.

OPERATOR: Our next question is from Jessica Chipman of Tudor Pickering. Please go ahead.

JESSICA CHIPMAN: Good morning, guys.

MARK BORER: Good morning.

JESSICA CHIPMAN: I have a quick one on your targeted total return, the 12 to 15 percent. You mentioned a 5 to 7 percent annual growth rate on distribution. I just wanted to clarify, that's not for 2010, right? It's a long-term target?

MARK BORER: Yes, that is a long-term target, Jessica.

JESSICA CHIPMAN: Okay. Thank you. And my second one is a bigger-picture question. Is there a cap on what size dropdown you guys would be willing to do? I know you have about $200 million of liquidity, but would you be willing to access maybe more debt, more equity, and take on something a lot more sizable than that?

ANGELA MINAS: Yes. I would hesitate to provide a specific number, as that would really depend on the nature of the transaction. We do have the — as you indicated — over $200 million available in our credit facility. We have been able to, we believe, successfully access the equity markets for — a company of our size probably could execute the market for equity of, you know, about a $250 million dollar range, and then certainly with our investment-grade plan, we believe we have access to the public debt markets at a competitive cost.

JESSICA CHIPMAN: Okay, that helps. Thank you.

OPERATOR: Our next question is from Yves Siegel of Credit Suisse.

YVES SIEGEL: Good morning.

MARK BORER: Good morning.

ANGELA MINAS: Good morning.

YVES SIEGEL: Early this week, Enbridge priced some debt at a really attractive 5.2 percent. Any thoughts, Angela, on where the mark would be for you?

ANGELA MINAS: We — given our BBB- rating, I think we would — Enbridge is a BBB, so as a BBB-, we'd be slightly higher than that. We'd probably also, with a single rating, probably look at a 25 to 50 basis point differential on top of that.

YVES SIEGEL: Wow. So you think you could do it less than 6 percent, then?

ANGELA MINAS: Yes, we probably could in this environment.

YVES SIEGEL: Wow. Okay. And then just a couple of just follow-ups. On the Wattenberg pipeline, what's the capacity on that line?

MARK BORER: The capacity on the pipeline is 22, 000 barrels a day, Yves.

YVES SIEGEL: And so with the work that you're doing now, any sense of trying to expand that, or would you — is 22,000 basically where it's going to be?

MARK BORER: I think 22,000 is probably pretty much where it will be, and there may be some potential to, you know, modify that slightly, but that's probably pretty representative.

YVES SIEGEL: Okay, and then as it relates to potential for growth projects, any way to bracket the size of the projects that you're evaluating right now?

MARK BORER: It's — you know, I mean, there's projects, obviously, that can be, you know, $15 [million], $25 million type things, but I wouldn't put any cap on the larger side of it. Obviously, we've done some things jointly with Midstream, DCP Midstream, our sponsor, in the past, so we really don't feel that we're limited on project size with most things that we see.

YVES SIEGEL: Okay, so are you also looking at pipeline projects as well?

MARK BORER: We look at NGL pipeline projects, you know, relative to the natural gas services segment. We obviously have not been in the interstate part of the business, but there could be opportunities to build, you know, some larger trunk lines gatheringwise or things like that.

YVES SIEGEL: Okay, great. And then lastly, what was the distribution that you got from Discovery that's reflected in the quarter?

ANGELA MINAS: In the quarter, we got a distribution of $8.6 million, for total distributions this year of $18.4 million from Discovery, and that compares to an adjusted EBITDA for Discovery of about $22 million this year.

YVES SIEGEL: Okay, thank you.

MARK BORER: Thank you.

OPERATOR: Our next question is from Andrew Gundlach of ASB. Please go ahead.

ANDREW GUNDLACH: Thanks for taking one more. Can you speak at all about your hedges for 2011?

ANGELA MINAS: Our hedges do appear in the appendix, page 29, on the webcast, so for 2011, our crude hedges are about the same as they are in 2010, and then gas hedges come down by about a third in 2011. We do have crude hedges going out to 2014 and gas hedges going out to 2013.

ANDREW GUNDLACH: And is it fair to say that you're actively trying to get the 2011, and I guess even '12, up to the volumes that you would expect?

ANGELA MINAS: Yes, we are — as I said, with 2011, we're hedged about the same as we are with 2010, and then 2012, we're pretty close to that as well, so —

ANDREW GUNDLACH: Great.

ANGELA MINAS: — on the liquid side, we're pretty highly hedged for about four years.

ANDREW GUNDLACH: Great. Thank you.

OPERATOR: This concludes today's question-and-answer session. I'd like to turn the conference back over to our speakers if they have any closing remarks.

KAREN QUAST: Thanks, Andrea, and thanks to everyone for your interest in the partnership. If you have any further questions, please don't hesitate to call me — this is Karen Quast. As a reminder you can access a replay of this webcast as well as a transcript via our website at www.dcppartners.com. Thanks and have a great day.

OPERATOR: Thank you. This concludes today's conference. Thank you for attending. You may now disconnect.