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DPM - Q2 2016 DCP Midstream Partners LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to DCP Midstream Partners second-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Ms. Andrea Attel. Ma'am, you may begin.

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

Thanks, Said. Good morning, everyone, and welcome to the DCP Midstream Partners second-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 the risk factors, please refer to the Partnership's most recently filed 10-K and 10-Qs. We will also use various non-GAAP measures, including distributable flow, adjusted EBITDA, and adjusted segment EBITDA, which are reconciled to the nearest GAAP measure in the schedule in the appendix section of the earnings slides. Now I will turn the call over to Wouter van Kempen.

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

Thanks, Andrea. Good morning, everyone, and thanks for joining us and for your interest in the Partnership. This quarter, once again, underscores how the execution of our DCP 2020 strategy continues to contribute to our performance, and how the team is resetting the business to be sustainable in any environment.

I will begin with reviewing the quarterly highlights, including an update on volumes and then Sean will discuss the financial results. I will come back and close with some summary thoughts. Starting with financial highlights.

DPM generated adjusted EBITDA of $138 million and DCF of $128 million during the second quarter of 2016. While Q2 results are lower than last year, given the difficult business and commodity price environment, you can clearly see the significant contribution of our DCP 2020 strategy, evidenced by substantial cost savings, improved reliability and our increase in fee-based growth.

Together, these contributions offset the roll-off of the hedges that expired at the end of the first quarter. We are being very proactive in getting out in front of the hedge roll-offs. Our distribution stands flat, at $3.12 per unit annualized, and we generated strong distribution coverage of 1.06 times for the quarter and 1.21 times for the trailing 12 months. Our coverage, coupled with our low leverage of 3.4 times, provides us with runway at we prepare to pave it for a recovery.

In the second quarter, we also executed on the sale of our North Louisiana assets, and we idled underutilized plants, contributing to reduced operating and maintenance costs and increased asset utilization. Let me give you some details, beginning with the sale of our North Louisiana system. These assets included the Ada and Minden plants and associated gathering system and the PELICO gas transmission pipeline.

The transaction closed on July 1 and we used $160 million of proceeds to pay down debt. Two points here. First, the North Louisiana assets were non-strategic to DPM, as this was an area where the DCP Enterprise was not targeting to invest capital, while others were much more focused in this area. Second, we are pleased with the strong multiple we received and that the transaction is DCF neutral. So all in all, a very sound divestiture.

In our Eagle Ford and East Texas systems, two areas where we have seen volume declines, we acted to optimize and improve our overall plant utilization by idling approximately 320 million a day of underutilized plant capacity, also resulting in significant operating and maintenance cost savings. Let's move on to Natural Gas Service segment update on slide 4.

During the second quarter, our volumes were essentially flat compared to the second quarter of last year and down moderately from the first quarter of 2016, driven by declines in certain lower margin areas that are being offset by growth in higher margin areas, demonstrating the strength and the diversity of our asset portfolio. Our DJ Basin assets set record volumes nearly every month this year.

DPM system volumes more than doubled from last year, largely due to strong production in the field and DPM's Lucerne 2 plant and Grand Parkway projects being placed into service. Utilization on DPM's DJ Basin system was up from the first quarter and exceeded its 395 million a day nameplate capacity during the second quarter. The DJ continues to be a great story.

As part of the settlement between DCP Midstream and a producer earlier this year, we agreed to utilize each other's plant capacity in the DJ Basin to offload access volumes. Via this agreement, we have offloaded significant volumes over the past few months, balancing producer supply with our processing capacity in a very efficient manner. The net result is an extremely capital-efficient way to bridge us to when additional capital is needed in the DJ Basin.

Let's switch to discovery. Utilization remained strong at 90% during the second quarter, with volumes averaging a little below full capacity, primarily due to producer downtime associated with asset improvements that are expected to be completed later in the year. Capacity utilization during the second quarter increased to 85% of our Eagle Ford system and 65% on our East Texas system.

Utilization on both systems increased due to our proactive response to idle approximately 320 million a day of underutilized capacity. These plants are part of an integrated system, allowing us to reroute gas to more efficient plants in these areas, which illustrates our flexibility to make fixed cost variables. As expected, volumes in the second quarter on both our Eagle Ford and East Texas systems started to show declines, both sequentially and quarter-over-quarter, reflecting steeper production declines and the overall reduction of drilling.

We have previously given guidance of 15% to 20% exit rate declines, and at this time, we expect to be at the higher end of that range for these areas. Our strong focus on asset optimization is materializing through improved asset utilization and cost savings. So we will continue to proactively manage our capacity utilization and be ready to pivot in areas such as the DJ, where there may be additional capacity needs, again, highlighting the strength and the diversity of our asset portfolio.

Now moving on to the NGL Logistics segment on slide 5, where we continue to have a strong story. Pipeline throughput in this segment increased both quarter-over-quarter and sequentially from last quarter. Sand Hill's volumes are up from both periods, primarily due to the laterals that came online mid-2015 and higher NGL production from new third-party plant connections and from DCP Midstream's Zia II plant that went into service in the fourth quarter of 2015.

With this growth, Sand Hills reached its 250,000 barrel per day capacity right as we put another 30,000 barrels per day of capacity online in May through the addition of our Three Rivers pump station. This underscores our strong focus on capital efficiency and the new expanded 280,000 a day capacity is already 90% utilized.

Southern Hills volumes were also up compared to the second 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 remained flat compared to the first quarter, but that doesn't tell the full story. Q2 volumes were up from the first quarter due to our ethane incentive tariff that was effective May 1, which incentivized plants connected to Southern Hills to recover ethane.

In June, we experienced some brief operational issues, which required us to reroute some volumes off of Southern Hills. The net result between these two shows flat volume sequentially. Front Range saw growth primarily due to an increase in NGL production from Lucerne II being in service at the end of Q2 2015 and overall growth in the DJ Basin.

In summary, our NGL pipeline adds to the strength and diversity of our portfolio, with growth from this segment offsetting declines in our Natural Gas Services segment. As we look out to the crackers coming online in late 2017 and 2018, we are optimistic that we will see upside potential from ethane recovery. Now I will turn it over to Sean to cover our financial results and a capital update.

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

Thanks, Wouter. I appreciate everyone taking the time to join us this morning. On slide 6, we are highlighting DPM's continued solid execution shown through our Q2 results, delivering growth for free-based projects and strong cost savings. In our Natural Gas Services segment, second-quarter adjusted EBITDA was $102 million.

The waterfall demonstrates the growth, primarily from our Lucerne 2 plant and Grand Parkway projects, coupled with cost savings, substantially offset the roll-off from hedges that expired at the end of the first quarter. Results also reflect lower commodity prices in gas throughput volumes on our Eagle Ford and East Texas systems compared to the second quarter of last year. Focusing on our NGL Logistics and Wholesale Propane segments, NGL Logistics' adjusted EBITDA increased $10 million to $53 million.

Our Wholesale Propane adjusted EBITDA was up $1 million to $5 million. The increase in our NGL Logistics statement was driven predominately by higher throughput volumes on our Sand Hills, Southern Hills, and Front Range pipeline, and higher volumes on the Mont Belvieu amount fractionators. In line with the rest of the Company, both segments benefited from lower costs compared to the second quarter last year.

Now moving to slide 7, I'll provide an update on our capital and then our hedging and financial position. First, I will cover growth capital. We are executing well on prioritizing our capital spending. With crude once again retracting, we will continue to watch this very closely, taking into consideration the commodity outlook, timing, and business needs.

We substantially executed on our 2016 growth program, which included the completion of Grand Parkway, the addition of pump stations to expand Sand Hills, and the Panola Pipeline expansion that is expected to go into service in the third quarter. With Sand Hills nearing 90% of its 280,000 a day expanded capacity, we are looking at timing of additional capacity needs related to new third-party plants and ethane recovery opportunities.

In our ongoing targeted discussion with producers, we are beginning to hear a change in their tenor to cautious optimism around the potential for growth opportunities, foremost in the DJ and the Permian Basins. During this cycle, it continues to be important to have in-depth discussions around timing of producers' drilling and capacity needs, given the long lead times for us to build processing capacity. Consistent with our track record of not being a build-it-and-they-will-come Company, it is essential that we and our producers see sustained higher commodity prices before we expect to pivot towards growth.

Now let me spend some time on our maintenance capital trend. As we talk about maintenance, let me be clear that safety remains our top priority. We are proud of our safety record, remain committed to maintaining our entry leadership position. Similar to other costs, we are proactively managing our maintenance capital, completing routine and required maintenance.

We are incredibly proud to tell you that our assets are running the best they have in my seven years with the Company and our reliability continues to improve through are prioritized and targeted investment strategy. Our 2016 plan includes $30 million to $45 million of maintenance. However, you can see that we are trending lower and have spent approximately $3 million year-to-date.

Our typical maintenance capital includes spending on well connects to keep volumes flat, system integrity, compliance, and safety improvements. Our original plan had up to 10 million of well connects included in our forecast; however, as we manage risk in the current environment, producers have been funding the majority of the well-connect activity.

Historically, we have invested a lot of maintenance capital in Eagle Ford and East Texas systems, so with our targeted asset rationalization program, the idling of plants in these areas has also contributed to lower maintenance spending. Then lastly, another reduction would include maintenance associated with the recently divested North Louisiana assets.

Now moving to slide 8, I will quickly hit the highlights regarding our margin and hedging portfolios. Our estimated 2016 annualized margin is 90% fee-based through hedge, with fee-based margin estimated at 75%; that is noticeably up from 60% in 2015. The remaining 25% margin is currently 55% hedged for the full year.

Also, to reiterate, the waterfall in this slide demonstrates our focused execution on our DCP 2020 strategy, with overall growth in fee-based earnings and cost savings initiatives offsetting hedges that rolled off at the end of the first quarter. Looking outward to 2017, we estimate our fee-based market decline to 80% or more, which is up significantly from 50% just a few short years ago, and this is due to the strategy to grow our fee-based asset portfolio.

It is important to call out that the commodity-exposed margin in 2017 represents only 20% of the portfolio, lowering the volatility of DPM's cash flow. Additionally, we will remain proactive in managing our commodity exposures through the addition of fee-based projects and hedges; however, given the depressed commodity environment, we have not added any new hedges recently. Our risk management team is closely monitoring commodity prices and will look to execute additional hedges as opportunities present themselves.

Slide 9 highlights DPM's strong credit metrics, leverage and distribution coverage ratios underscoring our stable balance sheet. The Partnership had $933 million available under its $1.25 billion credit facility as of June 30. As a reminder, on July 1, we received $160 million of proceeds that were used to repay outstanding borrowings, reducing DPM's short-term debt to $125 million at the end of July and raising liquidity levels to over $1.1 billion.

DPM also had $2.37 billion of long-term debt outstanding, with an average cost of debt of 3.6%, and our next debt maturity is not until December 2017, so we have ample liquidity. Our leverage and coverage metrics remain strong, with leverage ending at 3.4 times, on the low end of our target range. Our coverage ratio was a solid 1.06 times for the second quarter and 1.21 times for the trailing 12 months. With that, I'm going to hand it back to Wouter to wrap things up.

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

Thanks, Sean. We are very excited with how our DCP 2020 strategy has progressed in its execution since we began these efforts in 2014. I want to say thank you to all of our employees again for their strong commitment to our DCP 2020 execution and their continued safety leadership. We are making step changes to become the most reliable, safe, low-cost midstream service provider, sustainable in any environment.

As the DCP Enterprise operates better and more reliably, reduces costs, and optimizes its systems, those strategies also benefit the Partnership, as evidenced through earnings growth from fee-based project execution and cost savings initiatives. Through this execution, we have already exceeded our 2016 goal of driving down our annual breakeven price to below $0.35 per gallon.

We run the DCP Enterprise as one Company so the execution of our DCP 2020 strategy is inclusive of both DCP Midstream and the Partnership. The DCP Enterprise has significantly reset its cost base, which directly benefits the Partnership, as evidenced in this quarter's results. In addition, strong project execution has added fee-based earnings, and combined with these cost savings initiatives, we have offset the roll-off from hedges that expired at the end of the first quarter.

We will remain diligent in managing our capital program, again, never at the cost of safety. Our operational excellence focus is paying off, as we continue to operate more efficiently and reliably, a win-win for both our customers and us. Through our recent discussion with producers, we have seen a cautious optimism in their tone to pivot to growth, but first, we will need a sustained improvement in commodity prices.

As always, we will match pace with our producers and target projects with strong returns. We see the potential for upside with ethane demand forecasted in late 2017 and 2018. With our focus on utilization, we will continue to optimize and rationalize our systems, consolidating or idling less efficient plants and compressors, and potentially selling non-strategic assets.

In summary, our proactive and deliberate response to the industry downturn has materialized in resetting the DCP Enterprise to be sustainable in any environment. We are accomplishing this by being grounded on our foundational DCP 2020 strategy, one that guides all of our employees. With that, I would like to thank you for your interest in the Partnership. Now, we are ready to take questions. Said?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Gabe Moreen from Bank of America Merrill Lynch. Your line is open, please go ahead.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Good morning, everyone. A question on the Louisiana sale. Just wondering if that was a reverse inquiry? Did that go to a producer in the area or private equity? Then also, positioning [near] the balance post that sale, you're already taking a fairly under-levered balance sheet and making it more so. Just wondering if it positions you to play some offense, and specifically talking about maybe acquiring the additional stakes in Southern Hills from Sand Hills from LLC?

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

This is Wouter, Gabe. Thanks. On North Louisiana, as I mentioned in my prepared remarks, it really was an area that we didn't think was long-term strategic for us, so we engaged in a process where we basically marketed those assets to a number of different parties. In the end, those assets were sold to Energy Transfer, as is publicly disclosed.

Looking at this, this is what we are continuing to do. We sold some assets last year, as well. They are smaller assets, but they are parts of the portfolio that are not strategic to us and we will continue to look at certain items like that. In the end, you know what, it does help our balance sheet and creating a little bit of dry powder or creating a good balance sheet is good as it pertains to opportunities that may come up here in the future.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Okay, but not specifically drop-down per se, but you are better positioned. Okay. Then just in terms of maintenance CapEx, is it possible that you could spend $6 million for the year? I know that you talked about the well connects. Should we expect second half of the year to trend up? Then on the well connects, can you just talk about how, returns and economics, if you don't spend that capital for well connects. In other words, are your returns at all better or worse for not doing that?

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

Gabe, this is Sean, good morning. Yes, returns are better, obviously, if the producers are helping fund the majority of the capital. In terms of how we will spend it, I will say there's one thing I didn't have in my comments earlier. Obviously, buy-ins are down, and producers, to your point, are funding a lot of that well connect activity that is still there.

Remember, we did idle some plants. A big area of concentration for capital spend for us was East Texas and the Eagle Ford. We are idling plants there, so that is lowering that area. North LA, you started the conversation with that, obviously, we had some maintenance capital there that we did not have to spend this year.

To your original question, we are more back-end loaded this year on the timing of our maintenance capital. So I do think you will see a trend where we will spend a little more in the back half of the year. But again, to your earlier question, yes, returns on those projects, and that is a good thing in this environment, are stronger, obviously, if the producers are funding a lot of that capital.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Thanks, Sean. Then last one for me. Wouter, you mentioned offloading or sharing volumes in the DJ between LLC and the MLP. Could you talk about how the economics work on that in terms of, is one entity compensating the other for that, just in terms of acreage dedications and volumes dedicated, one versus the other entity?

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

Gabe, it is actually not between LLC and DPM. As I mentioned, we had a large producer settlement in the first quarter of this year, and part of the producer settlement was not just economics and cash and things like that, but it was also us strategically looking at how do we optimize overall plant capacity in the basin? So what we are actually doing is, in that settlement, we both decided, both parties, that is the DCP Enterprise, plus a third-party producer and their affiliates, to share each other's plant capacity as needed and when needed.

So we have economic ways to basically off-load between each other. In the end, for us, what that does, it is very capital efficient, because we are obviously not putting a new plant in. It is also attractive for the other party because they do have additional plant capacity available, so that is how that works. Net/net for us, from a returns point of view, for the Enterprise as a whole, it is a very strong return because we don't spend any capital to build overall plant capacity.

Gabe Moreen - *BofA Merrill Lynch - Analyst*

Understood. Thanks for the clarification, Wouter.

Operator

Our next question comes from Elvira Scotto from RBC Capital Market. Your line is open, please go ahead.

Elvira Scotto - *RBC Capital Markets - Analyst*

Hi, good morning. Looks like, if I look at your slide deck and I go through the guidance that you laid out on slide 21, you haven't really changed your guidance. Can you just help me think about the impact of the asset rationalization plus the asset sale to EBITDA and then versus -- you said there is going to be some offsets on the DCF line. So is it possible that, that EBITDA number could come in below your guidance, but DCF still be in line?

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

A couple of things, Elvira. Good morning. Regarding both adjusted EBITDA and DCF guidance, we are still staying with our ranges, we are not changing our guidance. We indicated the North LA sale is DCF neutral, and you are referring to obviously, there's an EBITDA equation to that, but we are still holding in line with our guidance; we are not updating our guidance around that particular sale.

The important thing to take from that sale, and Wouter highlighted was that it was done at a very high multiple, not an area that we concentrate and focus on. In the interim, we are able to take the high multiple cash flow and reduce the balance sheet. So guidance standstill, and a little more than halfway through the year, we will give you more updates along the way, but right now we are still holding the line.

Elvira Scotto - *RBC Capital Markets - Analyst*

Got it. You are still saying $30 million to $45 million of maintenance CapEx in your guidance, but the comments that you made on the call would suggest a lower number?

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

Same thing. Last quarter, Elvira, we started guiding toward the low end. Obviously, the spend has been limited so far through Q2, or year-to-date, June. I gave the reasons why. There's a lot of great reasons, and Gabe mentioned the returns, which is, which is a benefit.

I do think we are going to be a little more back-end loaded, and again, on the Q3 call, we will solidify a little more on our outlook for the year on that, but obviously, we are trending well below those levels at the moment. It is important to point out, though, that the way we started around maintenance, the Company is very focused on our safety and on our reliability, and things have been running very well. We are not investing in those types of things, we are still investing in those types of things, so more to come; in Q3, we will talk through where we are.

Elvira Scotto - *RBC Capital Markets - Analyst*

Okay, great. Then, can you provide some additional details around Southern Hills. You mentioned in your prepared remarks that you had an ethane incentive tariff that was driving more volume, but then an operational issue moved volumes off. Has that issue been resolved?

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

Yes, Elvira. It is Wouter. That issue has absolutely been resolved. It was a multi-day issue where basically we had a [pig] and it was stuck in the pipeline, so we had to reroute volumes. Net/net, we have spoken about the ethane incentive tariff, If you do the math and say, okay, you have a couple of days of rerouting volumes, you have the ethane incentive tariff; you take those two together, the volumes stay flat, but that issue has absolutely been resolved and no issues whatsoever.

Elvira Scotto - *RBC Capital Markets - Analyst*

So if volumes continue with the incentive tariff, then utilization should trend higher?

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

Yes, it should absolutely trend higher, but at the same time, Elvira, you've got to take a look at where frac spreads are sitting. This is a pure way to incentivize people to recover more ethane. That in the end is all a matter of where are the frac spreads and is it worth it the other people's while to continue to recover additional ethane.

During June, things were pretty good, or May, things were pretty good. NGL prices, gas prices, crude prices, all went up. Over the last couple of weeks, we've obviously retracted fairly significantly, which has an impact on frac spreads, which will have an impact, if it isn't economically the right thing for people to do to continue to extract ethane.

Elvira Scotto - *RBC Capital Markets - Analyst*

Great. Thanks for that. Then the last one for me, you talked about the potential to do some more non-core asset sales or idling of under-utilized plans. Is there any way to quantify how much you can do? At one point, DCP was targeting an eventual $0.30 a gallon NGL break-even. Do you think you can still get there? Do you think you can actually go below that?

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

Let me take those separately. When it comes to idling plants, asset sales, it is not something that we guide people to, and say hey, here is a number of different items that we have in the plan, but we continue to look at it. You have Brian Frederick and his team continue to look at how can we optimize the system.

So it may be certain plants that are being idle-ized. At the same time, there are things that are going on around gathering systems, compressors, and other things that probably won't reach the headlines that you guys are looking for, but will continue to make our system more efficient, more reliably reliable, and gives us a lower cost to operate, which then leads us to the $0.35 NGL break-even price. Just to put things in perspective, pre-October, November 2014, we were roughly at $0.60 NGL breakeven.

We broke that down to roughly $0.40 or so in 2015. Our goal for 2016 was $0.35 NGL breakeven, and as I mentioned in my remarks, we have reached that, we have gone through that, and then internally we set a goal for ourselves to maybe even reach $0.30 for 2016. As I am sitting here today, I feel pretty good that by the end of the year, we can be at a, call it, $0.30 runaway, so an unbelievable performance by everybody on the team, contract realignment, asset optimization, running our assets better, really, really good performance and we continue to work on that.

Elvira Scotto - *RBC Capital Markets - Analyst*

Excellent, thank you so much.

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

Thanks, Elvira

Operator

Thank you, our next question comes from Jeff Birnbaum from Wunderlich. Your line is open. Please go ahead.

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

Thanks. Good morning, everyone. A few questions from me. Just wondering, given the cautious optimism you have expressed that you are hearing from producers, certainly the improvements you've continued to make to the balance sheet, which was already in pretty good shape.

Certainly there's not a lot of cut-backs budgeted for the rest of the year. Fair to think that by the time we get closer to 2017, maybe you'd see the trade-off between offloading volumes and adding capacity start to shift, and maybe you look to add, whether it is more processing or even NGL storage capacity, as we head into next year?

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

Jeff, it is Wouter, we are absolutely having discussions with producers along those lines, but I use the word cautious optimism for a reason. Yes, we are all having discussions, but at the same time, where we are sitting here today with these commodity prices, overall, the oil and gas business is not sustainable.

So we continue to look and talk with producers and say you need to have prices that are probably on the crude line somewhere in the mid to high $50s or low $60s depending on where you are to really have a sustainable long-term approach from producers where they are willing to commit to new capacity, and that holds true for us, as well.

We're looking at -- in the DJ basin, at a variety of things. Yes, we are looking at new processing capacity, and that is one way to add capacity. There is another couple of things that we could do in the DJ to get overall capacity up and get more things for the producers.

Those could be bypasses, it could be things like an additional phase in the Grand Parkway. So we are looking at a variety of options in our discussions with the producers. Again, cautious optimism; at the same time, we need to seek commodity prices and predominantly crude prices that are a little higher than what we are sitting here today.

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

Okay, that is fair. As you think about -- particularly with the DJ, how much lead time do you think you would need before you could add another plant, to the extent that you did go that route?

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

That part of the discussion with the producer comes in play. Our lead time is obviously much longer than a producer putting a rig in and saying, okay, we are going to go drill. So that is the things we're trying to balance with the producers, how do we take our longer lead times and balance them with what the producers are looking at. The good thing is we have a lot of the long lead time equipment available. We have permits in had so we can pivot relatively quickly if needed and when needed.

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

Okay, great. Then if I could ask a quick question about LLC, but it certainly ties into the go-forward outlook at DPM. I am just thinking the same thing, I'm thinking about some of the capital efficiency the LP has been engaging in and I'm just wondering, are you similar looking, or are you can a partnering of sorts on the LLC level with other midstream players in areas where production may also be struggling a bit, like the Mississippian Lime, for example, to help the balance sheet up top?

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

There is definitely opportunities like that available. It is not always easy to do that, but what we are doing, the partnering that we are talking about in the DJ Basin, that is a combination of LLC and DPM partnering with that other third-party. So where we can, throughout the system, we will try to be efficient with our capacity, and as opportunities arise, we will go after them.

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

Okay, thanks. One point of clarification from me. Wouter, in your prepared remarks, did I hear you say you were looking closer to a 20% year-end 2016 exit rate on declines in East Texas, as well or was that just the Eagle Ford?

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

That is a combination of Eagle Ford and East Texas combined. We guided to the 15% to 20%. As we are sitting here today and volumes are difficult to predict, especially when you look at it on a month-by-month, quarter-by-quarter basis, but we said 15% to 20%, we are probably thinking it is hovering around the 20%.

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

Got it. Okay, thanks a lot.

Operator

Thank you. Our next question comes from Selman Akyol from Stifel. Your line is open. Please go ahead.

Selman Akyol - *Stifel Nicolaus - Analyst*

Good morning. Just following up on that last question, in terms of the exit rate on the Eagle Ford. Number one is do you see any possibility that it comes in beyond 20%? And then number two, do you have any contingency plans for more idling of capacity in Eagle Ford in order to keep utilization rates high?

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

At this stage, Selman, the 15% to 20% that we are seeing is good, as I said earlier. We think it is probably roughly around 20%. I don't have any reason at this stage to say that it's going to be much different. At the same time, these are very dynamic environments, and if something somehow happens where we see massive pullbacks on the commodity line, then obviously you could have a worse result; at the same time, you can have better results if somehow the environment starts improving faster than we expect.

As it pertains to your contingency plans, we are very proactive in what we are doing. We are not sitting, waiting until stuff comes down. Shutting down the plant and rerouting gas is not something that you do in a week or a month. You've got to think about that fairly well ahead of time, and we have proven that we do that, that we think ahead of time, that is why we utilize the East Texas plant and the Eagle Ford plants down and if there are other opportunities where we can do that in the system, we will absolutely go after them.

Selman Akyol - *Stifel Nicolaus - Analyst*

Okay. Then just more of a big picture question, in terms of ethane recoveries. Previously you'd said, it is on the horizon. I'm wondering if you have seen anything over the last quarter, and I know that you referenced producer, little more optimism, you saw prices run up in the quarter, prices come back down. Is there anything to change the timing on that horizon that you were referencing previously?

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

No, We have always said the second half of 2017 and 2018 and it feels pretty good. In the end -- here's the real important thing. It is not a question if it will come, it is a question when it will come. Obviously, the projects that are being built in the Gulf Coast, crackers that are being built by the various companies, those are tremendously difficult and large projects.

Figuring out the timing of those is not easy, but those projects are coming online, there is no question about it. Those crackers will need ethane, there is no question about that. In the end, will be a good thing for the DCP Enterprise and for DPM, given we are the largest NGL producer in the country and we have a very significant network of NGL pipelines that will benefit from this, as well.

So it is really a question if, not a question when it will come. If you look more tactically at the past quarter, our overall ethane rejection probably went down a little bit for us as a Company, couple of thousand barrels, but that was the opportunity that we have had at the time, and right now, you are probably going to little bit the other direction, given that the frac spreads have come in again.

Selman Akyol - *Stifel Nicolaus - Analyst*

All right, thank you very much.

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

Thanks.

Operator

Thank you. Our next question comes from Richard Verdi from Ladenburg. Your line is open, please go ahead.

Richard Verdi - *Ladenburg Thalmann & Company - Analyst*

Hi, good morning, and thank you for taking my call here. I was having connection issues and joined the call late and I'm actually still having some connection issues, so my apologies if this was addressed. I just have one question. It pertains to that 320 million cubic feet per day idle at the Eagle Ford and East Texas systems. Is that expected to remain offline as part of the 2020 cost saving plan or is that more of a function of volumes you are seeing at the time and should we expect to see volumes there again soon?

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

Richard, no, that is really how we work on optimizing our systems, in short-, medium-, and long-term. We have always had a strategy in all the basins that we play, where we have systems that are very well interconnected, which means that if certain plants go offline for maintenance or other things, we can offload to other plants, gives a great opportunity for your customer to have more reliability.

It also gives you an opportunity during down-cycles, like we are in today, to make fixed cost that a plant and all the people that are running the plant, which is really a fairly fixed cost, to make it variable, and say we are going to take that plant offline. What we do when we do those things, we put a plant under what is called nitrogen blanket, which basically preserves the plant and all the systems.

When volumes come up, we can fairly quickly put that plant back online and start processing volumes through that plant and that system. So it is very much a short-, mid-term way to address capacity, and to make sure that we are saving cost and addressing our cost base. Our goal is to have those plants back up. I want to hear our teams come to us and say, guys, you know what, the commodity environment is in a better place, producers are drilling again, and we need that capacity, let's bring it back up.

Richard Verdi - *Ladenburg Thalmann & Company - Analyst*

That is great. Thank you very much for that color. I appreciate the time. Thank you.

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

Thanks Richard.

Operator

Thank you. Our next question comes from Chris Sighinolfi from Jefferies.

Chris Tillett - *Jefferies LLC - Analyst*

Good morning. This is actually Chris Tillett on for Sighinolfi. How are you?

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

Good morning.

Chris Tillett - *Jefferies LLC - Analyst*

I just wanted to follow-up on some of the questions on the incentive programs that have been asked earlier. In particular, I was wondering if you might be able to quantify the impact of that incentive program on Q2 results? And then longer-term, just curious to know how that program is factored into the roughly $75 million to $100 million EBITDA uplift guidance you guys have provided previously?

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

Yes, let me do two things. The way -- I will let you do some of the math. We are probably saw an uplift of something to the higher end of the 5,000 to 10,000 barrels a day for the second quarter. And then all the tariffs and things are filed publicly, so you can take a look at what it is. You will probably get into a couple of million dollars.

Remember what the incentive program is. It's really a program to bridge people from prices where we are currently to full prices, so our goal is that the incentive program over time goes away and people start to pay their normal full tariff rates because you get into a place where the frac spread is such that we are going into broad ethane recovery. So that is how you should look at that between this, what we are doing today is a temporary bridging us into a longer-term late 2016, 2017, 2018 full recovery scenario to feed those crackers in the Gulf Coast.

Chris Tillett - *Jefferies LLC - Analyst*

Okay, understood. That was it for me. Thank you.

Operator

Thank you. I'm showing no further questions at this time. I would like to hand the conference back over to Andrea Attel.

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

Thanks, everybody, again, for joining us today. If you have any follow-up questions, please give me a call. We look forward to seeing many of you in September at the Barclays CEO conference. Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes our program. You may all disconnect and have a wonderful day.