DCP Midstream Partners

We Get Back Up Again

- **DCP Midstream, general partner of DCP Midstream Partners (DPM) is one of the largest gas processors, NGL producers and NGL marketers in the U.S.**
- **The company has a large exposure to the Eagle Ford Shale play in South Texas, which is experiencing a significant decline in oil and gas production, relative to other shale plays. Net income from DPMs Eagle Ford Natural Gas Services (NGS) unit could decline from $157 million in 2014 down to $25 million in 2017.**
- **DPM's NGS East Texas and Other Consolidated NGS businesses could also experience steep declines**
- **These declines are likely to be partially offset by DPMs operations in the DJ Basin and their interest in the offshore Gulf of Mexico Discovery System.**
- **Also offsetting declines in the NGS businesses are the company's NGL Logistics business, which are likely to provide solid growth in profits in future years, driven primarily by DPM's interest in jointly owned NGL pipelines (Sand Hills, Southern Hills, & Front Range) and solid performance from DPM's Marysville LPG storage unit.**
- **The Company's Propane Logistics business serves a stable demand market but its small size is unlikely to make an impact on total company performance.**

DCP Midstream Partners, LP (DPM) is a master limited partnership (MLP) which owns and operates a diversified portfolio of midstream energy assets. Its general partner is DCP Midstream, LLC, a 50/50 joint venture of Phillips 66 and Spectra Energy Corp. DPM gathers, processes, transports, and stores natural gas; fractionates, transports and stores natural gas liquids (NGLs) and is a wholesale propane marketer. The company primarily operates in the Gulf Coast markets but also has extensive assets in the Rocky Mountain and Mid-Continent regions.

Similar to most MLPs, DPM's share price has declined by more than 50% over the past year. Although most of DPM revenues are not directly impacted by energy commodity prices, reductions in drilling activity, production declines and narrowing price differentials all have negative implications for DPM and other midstream companies in the U.S. In the future, DPM will benefit from its strong fee based businesses and it is moving to increase the amount of its fee based revenues.

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DPM's level of success will be dependent on how well it navigates todays challenging energy markets. This report examines DPM's prospects based on a fundamental analysis of DPM's

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businesses, examining each piece of the company's operations through a robust bottoms-up assessment, including throughput, volumes, prices, and contract structures. This analysis is summarized into DPM's three operating divisions: Natural Gas Services (NGS), NGL Logistics (NGL) and Propane Logistics (PL).

1.1 Fundamental Analysis Highlights

Most of DPM's net income is derived from the natural gas processing and NGL markets and that is expected to continue into the foreseeable future. DPM's NGL Logistics business, via its pipelines assets, is the company's growth engine, leveraging its strength in Gulf Coast, Rocky Mountain and Mid-Continent markets. Much of that growth is due to a series of key investments DPM made over the past few years in the minority interests of several NGL pipeline companies. The most prominent among these is a 33.3% interest in the Sand Hills Pipeline that transports raw mix (Y-grade) NGLs from the Eagle Ford Shale (South Texas) and the Permian Basin (West Texas and New Mexico) to Mont Belvieu. Along with other strong performing jointly owned NGL pipeline assets including the Southern Hills and Front Range systems, the NGL Logistics segment net profit is expected to reach $240 million in 2017 from $121 million in 2014.

DPM's Natural Gas Services segment is expected to be weak, primarily due to very difficult market conditions in two of the company's most significant operating areas – the Eagle Ford Shale and East Texas. The bright spots in this segment are the Denver-Julesburg (DJ) Basin System (Northeast Colorado and Southeast Wyoming) and its 40% investment in Discovery Producer Services, LLC. The DJ Basin System is expected to benefit from increasing production from this basin. Discovery Producer Services is a natural gas gathering and processing system servicing the shelf and deep-water areas of the eastern Gulf of Mexico. Its primary asset is the Keathley Canyon Connector, a natural gas gathering pipeline serving the Keathley Canyon, Walker Ridge and Green Canyon areas in the Gulf of Mexico. Earnings for the Natural Gas Services segment peaked in 2014 at $469 million, and we expect earnings to be slashed by more than half in 2015 due to lower commodity prices and system impairment charges. Segment earnings are expected to continue declining in 2016 and 2017.

Net income during 2015 was impacted by goodwill impairments of $87 million year-to-date 3Q/15 in the Natural Gas Services segment, which were associated with the Piceance (Collbran), Michigan, and Southeast Texas assets. This analysis does not imply any impairments in the forecast, and there is a zero balance for goodwill in Natural Gas Services after the 2015 impairments. The other two reporting segments, NGL Logistics and Propane Logistics, have a combined $72 million balance of goodwill as of 3Q/15.

The outlook implied by this analysis suggests that DPMs net income will increase from $226 million in 2015 to $269 million in 2017, a 20% gain. The NGL Logistics segment will be the prime mover of net income for DPM, which may increase from $174 million in 2015 to $240 million in 2017. The Natural Gas Services segment earnings are expected to be flat in the near future reaching $182 million in 2017, about $1 million less than its 2015 net income. The Propane Logistics business will provide a steady stream of earnings with possible upside during periods of cold weather in its end use markets.

1.2 DCP Initiatives

DCP Midstream Partners is responding to today's difficult market environment through a number of initiatives. In its Natural Gas Services segment, the company has struggled from the recent collapse in oil prices as earnings and cash flow have been slashed due to the company's reliance on gas processing contracts with commodity price exposure. To address

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this situation, the company is transitioning its contract portfolio away from commodity indexed agreements and further down the fixed fee path. The company estimates 68% of its contract portfolio will be fee based in 2016. If successful, this would take a significant level of commodity price risk out of the company's Natural Gas Services business, adding more stability to cash flow and earnings streams.

DCP Midstream Partners is highly levered to some marginal oil and gas producing basins primarily the Eagle Ford Shale. If current low crude oil prices are sustained, drilling and completion activity could further slow, eventually reducing crude oil, natural gas and NGL production. Recently, Pioneer Natural Resources was the latest producer to suspend or reduce drilling in the Eagle Ford due to poor economics. Reductions in Eagle Ford volumes not only impact DPMs Natural Gas Services segment, but also impact its pipelines and fractionators that rely on Eagle Ford volumes.

DPM will rely on continued strong volume growth from the DJ basin to offset volumes lost in the Eagle Ford Shale, East Texas and other producing areas hit hard by low oil and gas prices. Although the DJ basin has also experienced these low prices, a fortunate combination of factors, including relatively attractive break-even prices have supported drilling in the play.

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2. Spotlight Reports from RBN Energy and East Daley Capital

2.1 What is Spotlight?

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. In each report we "Spotlight" a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamental based view of our Spotlight companies based on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today's extremely volatile energy marketplace. This report, covering DCP Midstream Partners is the second edition of the Spotlight report series. The first edition covering ONEOK was published in December 2015.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publically available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

2.2 How can I get Spotlight?

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.

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3. NGL Market

Approximately 90% of DCP Midstream Partners gross margin is derived directly or indirectly from the company's involvement in natural gas liquids markets. This includes natural gas processing plants, fractionators, storage, and pipeline distribution systems.

As the name suggests, natural gas liquids (NGLs) are liquids extracted from natural gas soon after it leaves the wellhead. Natural gas that comes from a wellhead must be treated and processed before it can be used to heat a home or cook food. The natural gas delivered to homes is composed mostly of methane. Natural gas as it comes from a wellhead contains methane, but also many other compounds. Some of those compounds are impurities like water and sulfur. But natural gas from a wellhead also contains some quantities of hydrocarbons other than methane. By far the largest group of these other hydrocarbons are natural gas liquids, a family of five hydrocarbons that can be extracted from natural gas containing sufficient quantities of these products. It can make sense to extract NGLs from gas for two primary reasons. First, because they are usually (but not always) worth more than natural gas. And second, because there is a limit on the quantity of NGLs that can be contained in natural gas to be able to transport the natural gas safely over long distances.

The amount of NGLs in the natural gas produced from different basins, and even different wells drilled within basins can vary significantly. Some gas, called "wet" gas contains significant quantities of NGLs. Because NGLs have a higher heat content (BTU content) than methane, the heat content of wet gas is higher than in the other general category of produced gas, called "dry" gas. Dry gas has less NGLs as a proportion of the total gas stream, and thus has a lower heat content. Note that in this context, the terms "wet" and "dry" gas have nothing to do with the water content of the gas.

After the wet gas emerges from the wellhead, it must be sent to a natural gas processing plant, where the NGLs are separated from the natural gas. A natural gas processing plant lowers the temperature of the gas stream until the NGLs condense into a liquid and separate from the natural gas. At this point, the NGLs are mixed together in a cocktail most often called Y-grade, raw make or mixed NGLs. The mix moves via pipeline, rail, barge, or truck for further processing. That processing step between extraction of NGLs at a gas processing plant and delivery to market is called fractionation. A fractionator separates the Y-grade NGL stream into the five members of the NGL family called, by industry convention, "purity" products.

These five members of the NGL family are:

1. Ethane is a feedstock used to make a number of petrochemicals, the most important of which is ethylene. Ethylene is used in the manufacture of polyethylene (plastic), ethylene glycol (antifreeze), and a host of other products.

2. Propane is primarily used for heating, BBQ grills, and petrochemical manufacturing yielding various chemical derivatives, including propylene, used in the manufacture of polypropylene (another plastic).

3. Normal butane, or n-butane, is primarily a component used in motor gasoline. Vapors coming out of your car's gas tank at the filling station on a hot summer day are mostly normal butane.

4. Isobutane is used in refrigeration, as a propellant in aerosol cans, and in the manufacture of a high-octane component in motor gasoline.

5. Natural gasoline, sometimes referred to as pentane or pentanes-plus, is used as a component of motor gasoline, in petrochemicals, and in diluent, which is stirred into heavy, viscous crude oil so that it will flow as a liquid in pipelines.

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About half of U.S. fractionation capacity is located at the two largest NGL market centers where Y-grade pipelines and other transportation modes bring mixed NGLs to fractionators. After fractionation, the purity products are transported by pipeline, rail, truck, barge and ship to downstream markets. The two largest market centers are at Mont Belvieu, Texas (east of Houston) and Conway, Kansas due to the availability of huge underground storage facilities at those locations. Note that the Conway market is generally extended to include other Mid-Continent fractionators. Other fractionators are located across the U.S., with a significant number of new fractionation plants being built over the past five years in the Pennsylvania, West Virginia and Ohio area, near the Marcellus and Utica basins.

4. Company Overview

DCP Midstream LLC owns 21.4% of DCP Midstream Partners. The remaining 78.4% of the company is owned by its limited partners. As noted above, DCP Midstream, LLC is owned equally by Phillips 66 and Spectra Energy.

Headquartered in Denver, Colorado, DCP Midstream LLC, general partner of DCP Midstream Partners is one of the largest gatherers and processors of natural gas and one of the largest NGL producers and marketers in the U.S. Its largest exposure, in terms of margins, is to the Eagle Ford Shale with the DJ Basin a distant second. The company also has assets serving East Texas, Southeast Texas, Michigan, Northern Louisiana, Southern Oklahoma and Wyoming. DCP also has a 40% interest in the Discovery system serving onshore and offshore Southern Louisiana.

The NGL Logistics segment owns 10 NGL pipelines, five wholly-owned and unconsolidated interests in 5 additional pipelines. The pipelines move NGLs from its DJ Basin processing plants, as well as from third party processing plants in the Rocky Mountains, Permian Basin and Mid-Continent, primarily to its partially owned Mont Belvieu fractionators.

The Propane Logistics segment operates two propane marine terminals, one propane pipeline terminal, and six propane rail terminals. These assets serve the northeast, mid-Atlantic and upper mid-western markets.

In October 2015, an additional $3 billion worth of cash and assets were invested into DCP Midstream LLC. Phillips 66 contributed $1.5 billion in cash, with Spectra Energy contributing a 33% interest in Sand Hills and Southern Hills NGL pipelines. This contribution does not directly impact DCP Midstream Partners but benefits the partnership as a whole.

4.1 DCP Midstream Partners Structure and Financial Performance

DPM is organized into three operating divisions: Natural Gas Services (NGS), NGL Logistics (NGL), and Propane Logistics (Propane). The other segment includes corporate G&A, Interest, and Income Taxes. Through 9/30/15, DCP generated $139 million in net income, about 40% below a year earlier. Figure 1 shows the structure of DPM net income by segment.

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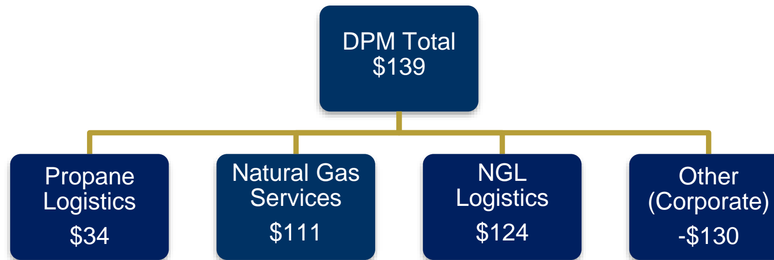

Figure 1 – DCP Net Income by Segment; $ Millions, Q1-Q3, 2015

The NGL Logistics segment generated about 46% of net income (excluding corporate items), with NGS and Propane accounting for 41% and 13%, respectively. The Corporate segment includes all G&A and interest expense costs. The NGS segment's performance has been hampered by weak commodity prices, whereas the NGL and Propane segments are primarily fee based businesses that have been providing growth to DPMs bottom line.

The company has spent approximately $1.2 billion in capital spending since 2012. As seen in Figure 2, the Natural Gas Services Segment accounted for 93% of that investment, while the NGL Logistics received 5% of that capital and the Propane Logistics received the remaining 2%.

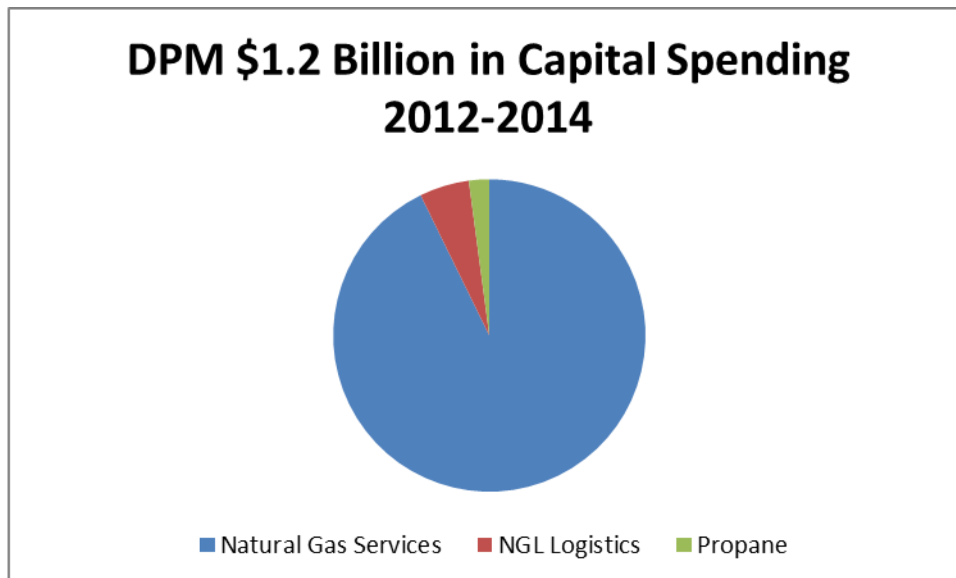

Figure 2 – DCP Capital Spending, 2012-14

5. Operations Overview

5.1 Natural Gas Services (NGS)

As shown in Figure 3 below, the NGS segment portfolio is geographically diverse consisting of 23 natural gas processing facilities with capacity of over 2.5 Bcf/day, 5 fractionators producing nearly 120,000 barrels/day and 11,300 miles of pipelines. It gathers natural gas, and then processes it to remove impurities and extract natural gas liquids (NGLs). The gas is

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transported via pipeline to end-use markets, including commercial, residential, power generation and industrial consumption. The natural gas liquids are sent via pipeline to a fractionator for separation into "purity" NGL products. In terms of profits, DPM's largest exposure is in the Eagle Ford Shale with the DJ Basin a distant second. The Eagle Ford System posted a $41 million net income in 1Q/15-3Q/15, 34% of Natural Gas Services segment net income. The DJ Basin System earned nearly $20 million in net income through 3Q/15, accounting for another 17% of segment net profit. Collectively, these two systems accounted for 51% of NGS segment net income. DPM's East Texas System earned another 10% while its unconsolidated ownership in Discovery Pipeline Services accounted for another 29% of segment net earnings.

The Eagle Ford System consists of over 6,000 miles of gathering and transportation pipelines, 3 fractionators, and 7 processing plants with 1.2 Bcf per day of gas processing capacity and nearly 85 Mb/d of NGL production.

The DJ Basin System has 2 processing plants combining for 195 MMcf/day of nameplate capacity and producing over 40,000 barrels of NGLs per day. The primary asset in this system is the Lucerne II plant expansion, which now generates most of the system's profit.

DPM's East Texas System, located near Carthage, Texas, consists of one gas processing complex as well as the Cross Roads and George Gray gas processing plants with 860 MMcf/d of nameplate capacity producing nearly 34,000 barrels of NGLs per day. The system has 900 miles of gas gathering and transportation assets as well.

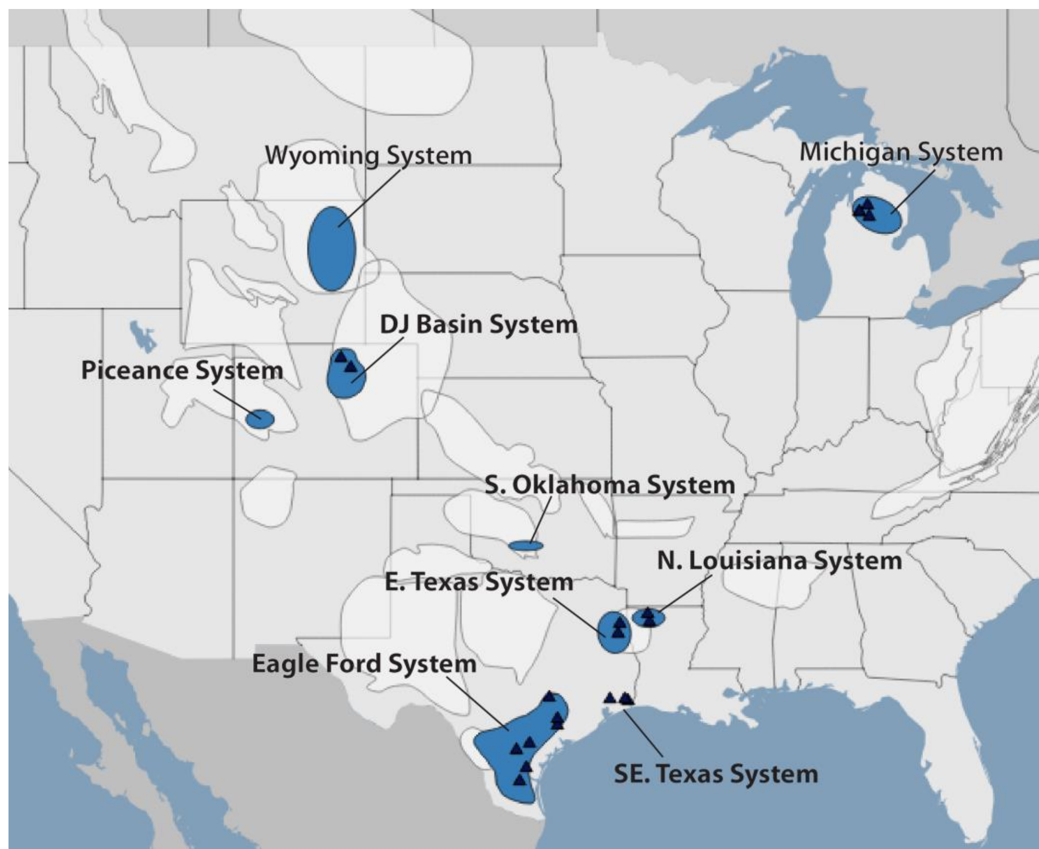

Figure 3 – DPM's NGS Unit Major Assets

The Southeast Texas System includes 675 miles of natural gas pipelines, three natural gas processing plants two of which are temporarily idled, with 400 MMcf/d capacity and producing

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about 7,000 barrels of NGLs per day. A natural gas storage facility, located in Beaumont, Texas has a capacity of 14 Bcf.

DPM's Michigan system consists of 3 natural gas treating plants with a capacity of 420 MMcf per day, a 440-mile gas gathering system and various residue pipeline interests primarily located in northern Michigan.

The Northern Louisiana System consists of 2 NGL extraction plants, and nearly 1,500 miles of gas gathering and transportation pipelines. The two plants have a nameplate capacity of 160 MMcf/day and produce nearly 3,900 barrels of NGLs per day.

DPM's Southern Oklahoma system is a 225-mile gas gathering system that services the Golden Trend area in southern Oklahoma. The system has 17 MMcf/day in throughput and is adjacent to assets owned by DCP Midstream, LLC which uses the gas gathered by the system to run through its processing plants.

The Wyoming system consists of 1,400 miles of natural gas gathering pipelines in the Powder River Basin in Wyoming, which delivers gas to third-party gas processors.

DPM's Piceance system is comprised of a 75% operating interest in Collbran Valley Gas Gathering, LLC, which operates gas gathering assets in the southern Piceance Basin of Colorado. The remaining 25% interest is held by Occidental Petroleum Corporation, who is the primary producer on the system.

DPM has a 40% unconsolidated interest in Discovery Producer Services LLC with the remaining 60% owned by Williams Partners L.P, the operator. The assets are primarily natural gas gathering pipelines located in the eastern Gulf of Mexico.

The company mitigates the impact of its commodity price exposure through a combination of hedges and fee-based processing contracts. Like most natural gas processing plants in the U.S., facilities in the company's Natural Gas Services unit generate revenues based on three basic types of contracts with natural gas producers:

- **Fee-based:** The processor receives a fee per volume of gas processed.
- **Keep whole:** The processor retains the NGLs extracted from the gas stream and returns or pays for the BTU content of the gas delivered to the plant. Processors benefit when natural gas liquids prices are strong relative to natural gas prices (aka the "frac spread").
- **Percentage of proceeds:** The processor is paid a percentage of the value of residue gas, natural gas liquids, and condensates sold. The processor's revenues rise and fall with the prices of residue gas, natural gas liquids and condensates.

Fee based contracts in 2015 constituted 61% of the gross margin for DPM's G&P contracts. Prior to 2014, higher prices for NGLs made commodity-based contracts more lucrative and consequently DPM's portfolio was only 45% fee based. With the decline in commodity prices, the company is attempting to increase the number of fee based contracts and we expect that in 2016, DPM will reach more than 68% fee-based. The Eagle Ford and DJ basins are the plays where DPM has been aggressively renegotiating contracts with its E&P customers to gain greater fee-based exposure. Fee based margins make earnings and cash flow much more predictable and stable, a good attribute for a MLP.

5.2 NGL Logistics (NGL)

The NGL unit is a fee-based business that primarily transports NGLs from natural gas processing plants to its two partially owned Mont Belvieu fractionation facilities. DPM owns 4 NGL pipelines that span over 900 miles with a capacity of 124 Mb/d. DPM also owns an

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unconsolidated interest in 5 additional NGL pipelines than span over 3,000 miles and has an additional throughput capacity of over 200 Mb/d. Company owned and joint venture pipelines are shown in Figure 4 and are described in more detail below.

The company owns 2 fractionators in the DJ basin with a combined throughput of 12 Mb/d. In addition, DPM has interests in two other Mont Belvieu fractionators with a throughput of 49 Mb/d. The company has a NGL storage facility with 8 million barrels of storage capacity.

DPM owns a 33.3% interest in the Sand Hills Pipeline, a 1,110-mile, 20-inch pipeline that transports NGLs from the Eagle Ford Shale and the Permian Basin to Mont Belvieu. The pipeline has a 250 Mb/d capacity of which DPM owns 83.3 Mb/d. The pipeline can be enhanced to 350 Mb/d with the installation of additional pumping stations.

The Southern Hills Pipeline is a joint venture between Phillips 66, DCP Midstream Partners and DCP Midstream LLC, which transports NGLs from the Mid-Continent region to Mont Belvieu. The 940-mile pipeline has 175 Mb/d of capacity of which each party owns approximately 58 Mb/d.

DPM also owns a 10% interest in the Texas Express Pipeline, a joint venture also owned by Enterprise Product Partners (35%), Enbridge Energy Partners (35%) and Anadarko Petroleum (20%). The 583-mile pipeline with a capacity of 280 Mb/d (28 Mb/d DPM's share) runs from Skellytown, Texas in the Texas Panhandle to Mont Belvieu. The pipeline is fed by the Front Range Pipeline as well as plants in the Texas Anadarko Basin.

Figure 4 – DPM's NGL Unit Major Assets

The Wattenberg Pipeline is a 500-mile intrastate system that is 100% owned by DPM that gathers y-grade NGLs from processing plants in the DJ Basin and delivers them to Hutchinson, KS for fractionation.

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DPM owns 100% of the Black Lake Pipeline, a 450-mile pipeline that carries NGLs from Northwestern Louisiana and Southeastern Texas to Mont Belvieu, Texas. The pipeline has a capacity of 40 Mb/d.

The Front Range Pipeline is a 450-mile system that carries raw mix NGLs from the DJ Basin in Colorado to Skellytown, Texas (about 50 miles northeast of Amarillo, TX) where it moves on the Texas Express Pipeline to Mont Belvieu. DPM owns a 33.3% interest in Front Range, which has a capacity of 150 Mb/d.

DPM owns a 15% interest in the 180-mile Enterprise Products Partners operated Panola Pipeline which carries NGLs from the Haynesville and Cotton Valley Shale plays in Northwest Louisiana and East Texas to Mont Belvieu. The pipeline has a capacity of 50 Mb/d and DPM is planning an expansion to double its capacity in early 2016.

The Wilbreeze and Seabreeze pipelines are both 100% owned by DPM. The Wilbreeze, a 39-mile pipeline with a capacity of 11 Mb/d, collects NGLs from the Eagle Ford System and the Sand Hills Pipeline as well as from third parties and delivers these to the Seabreeze pipeline. The Seabreeze, in turn, delivers these NGLs, as well as other third party volumes, to a third-party fractionator and storage facility.

DPM owns 2 fractionators in the DJ Basin with a combined throughput of 12 Mb/d. The units are operated by the general partner, DCP Midstream, LLC. The company also owns a 20% interest in the Mont Belvieu-1 fractionator operated by Oneok Energy Partners where DPM's share of throughput is 21 Mb/d. DPM also owns a 12.5% interest in the Enterprise Mont Belvieu fractionator, where DPM's share of the throughput is 28 Mb/d.

DPM also owns the Marysville NGL Storage facility located in Marysville, Michigan. The facility has 8 million barrels of storage capacity and serves the growing NGL output from the Marcellus and Utica Shales.

5.3 Propane Logistics (PL)

DPM's wholesale propane logistics business primarily operates in the highly competitive markets in the Northeast and Mid-Atlantic regions of the US. Its operations include one owned and one leased propane marine terminal, one owned propane pipeline terminal and 6 owned propane rail terminals, with a combined capacity of approximately 975 MBbls. PL has a strategic network of supply arrangements under annual and multi-year agreements with index-based pricing. The remaining supply is purchased on a month-to-month basis. The company's primary suppliers of propane include DCP Midstream, MarkWest, BP Canada and Petredec Limited. Supply may also be secured from DPM's NGL storage facility in Marysville, Michigan.

6. DPM Operations – Analysis and Projections

6.1 Natural Gas Services (NGS)

As indicated in Figure 5, the DPM NGS segment is organized geographically by major play, consisting primarily of the Eagle Ford system (37% of segment net income through 3Q/15), DJ Basin (18%) and the East Texas system (12%). DPM also operates in Michigan, North Louisiana, Southeast Texas, Wyoming, the Piceance Basin, and Southern Oklahoma. The company owns interests in the Discovery transmission and processing system that contributed $35 million in net income in 3Q/15.

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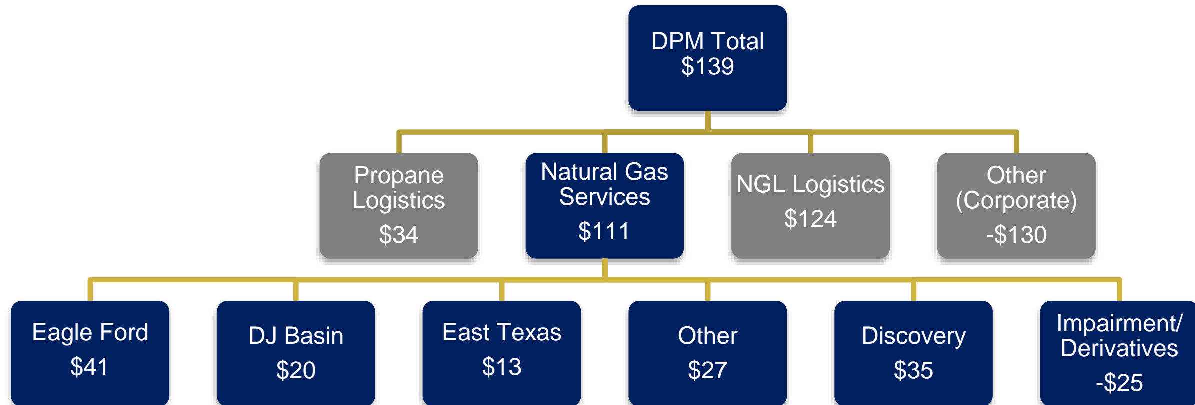

Figure 5 – 2015 Q3 YTD DPM NGS Net Income by Segment

6.1.1 Eagle Ford System

The Eagle Ford System consists of 7 plants (Goliad, Eagle, Giddings, La Gloria, Three Rivers, Gulf Plains, & Wilcox) with a capacity of 1.2 Bcf/d, shown in Figure 6 below. Multiple systems in South Texas were connected to create the Super System which connects to Eagle Ford supply and extensive legacy positions.

Figure 6 – DPM Eagle Ford Super System

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Current plant utilization is approximately 82%, but drilling in the Eagle Ford has slowed due to lower oil prices. As shown in Figure 7 below, the count of active natural gas rigs in the Eagle Ford has dropped from about 20 last year to only five today. Most rigs are drilling for crude oil (wells that also yield associated natural gas.) But the count of crude directed rigs has also dropped from over 130 last year to about 50 today.

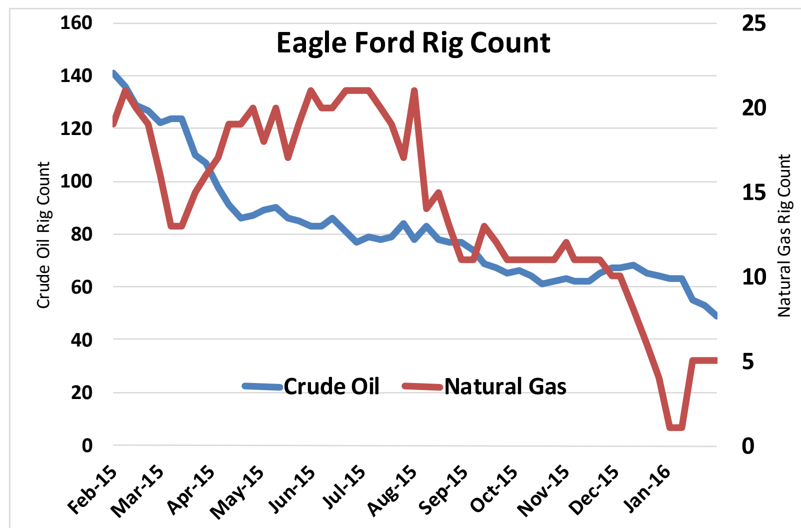

Figure 7 – Eagle Ford Rig Count, Source: Baker Hughes

The outlook for Eagle Ford production is primarily driven by producer economics in the region. Representative producer economics for the Eagle Ford are shown in Figure 8, in comparison with the results for various other basins across the U.S. These results are based on RBN's 2016 "Cutback" Price Scenario in which crude prices average about $38/bbl in 2016, increasing to $50/bbl in 2021, while gas prices grow from an average of $2.65/MMbtu in 2016 to $3.20/MMbtu in 2021. Both of these scenarios are above the current futures forward curves.

The values shown are representative producer's internal rates of return (IRR) on drilling investments in each of the indicated basins. This analysis uses half-cycle economics, which does not include "sunk costs" such as lease costs. The prices used in the analysis are adjusted by regional price differentials (basis) for each of the basins. The relative level of IRRs is shown in the graph to the left, while the geographic distribution of those returns is shown in the map on the right. Basins where oil prices are the primary driver of economics are shown in black, NGLs in green and dry gas in blue. Drilling and completion costs have been adjusted to reflect current conditions where service providers have reduced those costs by about 35% on average since mid-2014.

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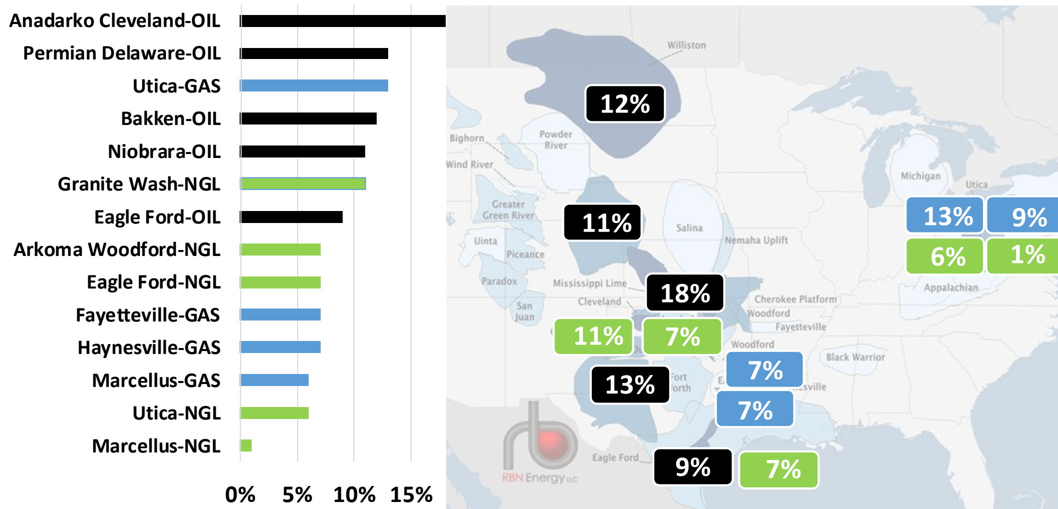

Figure 8 – Producer Economics

According to RBN Energy's producer economics analysis, the Eagle Ford shale yields the lowest return of any of the crude-dominant basins. The Eagle Ford NGL play also ranks equal to or below most of the NGL and dry gas plays. These economics are a significant factor in the lower rate of drilling in the basin, and consequently the decline in Eagle Ford production. Recently, Pioneer Natural Resources was the latest company to suspend all drilling in the Eagle Ford Shale.

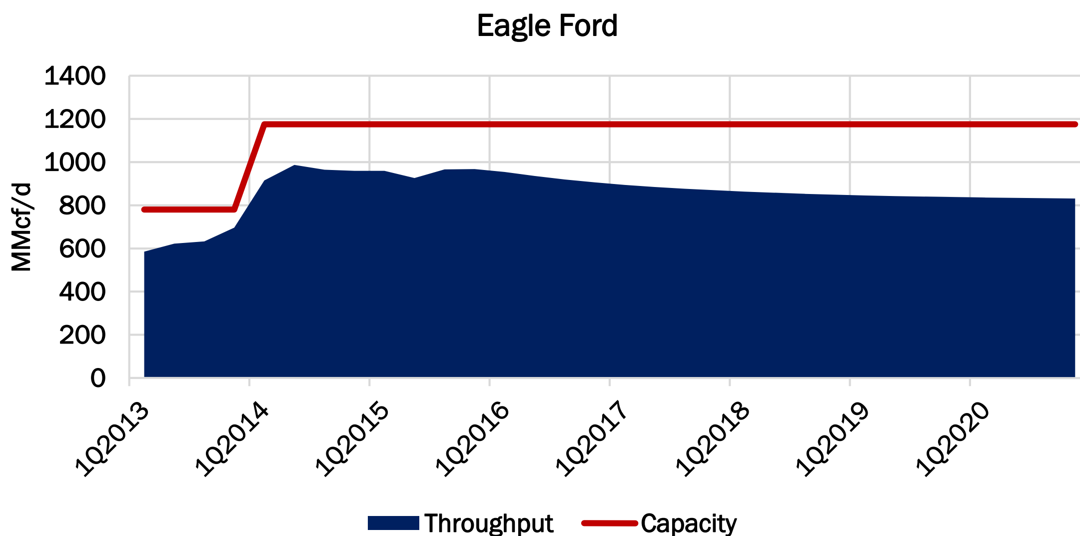

Figure 9 – Eagle Ford Super System Utilization

Our outlook for DPM's Eagle Ford Super System seen above in Figure 9 assumes 23 wells per month being drilled on the DPM Eagle Ford system, down from 38 wells per month during 2014. The average gas IP rate on DPM's Eagle Ford system is 1,325 Mcf/d, which is below 2011-2013 averages of 1,800 Mcf/d. Generally, IP rates have been declining in the Eagle Ford as operators have shifted focus to more oil-prone areas. The system

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historically operated mostly on percent-of-proceeds contracts, so margins declined as NGL prices fell. However, contracts are being converted to a more fee-based revenue stream, as newer plants such as the Eagle and Goliad are fee-based additions.

6.1.2 DJ Basin System

The DJ Basin system consists of 2 plants (O'Connor and Lucerne) with a capacity of 0.4 Bcf/d. The Lucerne II (0.2 Bcf/d) started operations in June 2015. The plants operate on fee-based arrangement with DCP, LLC, which operates a majority of the gathering systems that feed these plants.

Our volume outlook for the DJ Basin System (shown below in Figure 10) assumes that volumes from DPM's plants will continue to be utilized by the overall DCP Midstream LLC gathering system because they are the newest, most efficient plants in the basin. Our total Weld County outlook assumes 73 wells drilled per month. This is down from over 110 wells drilled per month in 2014. Production, however, is expected to increase, helping to keep DPM's plants full. The company receives approximately 27% of Weld County production, while DCP Midstream LLC, Western Gas, and other operators account for the remaining supply. Initial production rates for recent wells drilled in Weld County have averaged 465 Mcf per day, but reached as high as 520 Mcf per day in 2014. The system operates on a fee-based arrangement with DCP Midstream, LLC.

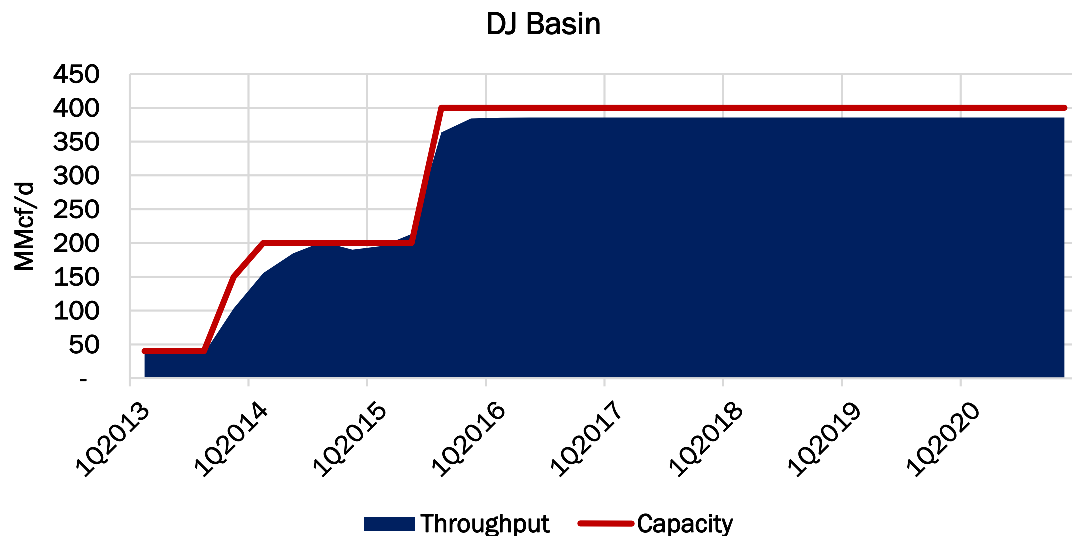

Figure 10 – DJ Basin System Utilization

6.1.3 East Texas System

The East Texas system consists of 3 plants (East Texas, Crossroads, and Gregory) with a capacity of 0.86 Bcf/d. The East Texas plant processes gas that DPM as well as other third-party gathering systems receive in East Texas.

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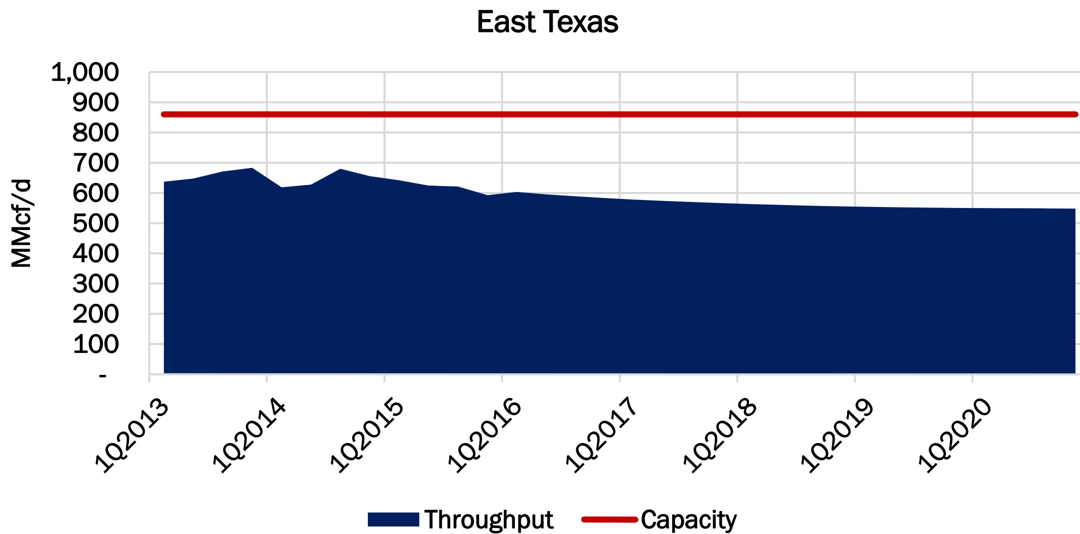

Figure 11 – East Texas System Utilization

As shown in Figure 11, the East Texas System is operating at approximately of 70% plant capacity. Our outlook assumes four new wells drilled per month, which is slightly below 2014 drilling activity. The play's natural decline is relatively steep compared to other areas due to a large number of wells producing from the "wet" Haynesville and Cotton Valley and other deep reservoirs. The system operates mostly on percent-of-liquids contracts, so margins have declined as NGL prices have retreated.

6.1.4 Other Consolidated Natural Gas Services Assets

The remaining consolidated assets in the Natural Gas services business, shown in Figure 12, include the Michigan, Southeast Texas, Northern Louisiana, Piceance, Wyoming and Southern Oklahoma systems.

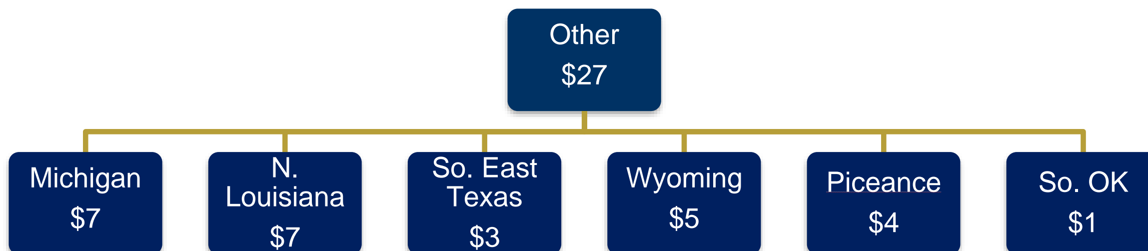

Figure 12 – Other Consolidated Natural Gas Services Assets

The Michigan system is the largest in the "Other" category in terms of net income, earning $7.2 million through 3Q/15. The fee based Michigan system is in a state of gradual decline as drilling on these long lived reserves has been drastically reduced due to low natural gas prices.

The Northern Louisiana system, the second largest in gross margin, consists of the Ada and Beacon processing plants and the Pelico intrastate pipeline. The system is in a long term structural decline and our outlook assumes one well being drilled per month. The system relies on a mix of fee-based, keep whole and percentage of proceeds contracts.

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The Southeast Texas system is made up of the Port Arthur, West Beaumont and Raywood plants. The Port Arthur plant is the only plant operating currently, as the other two have been idled. Consequently, the system is running at less than 50% capacity. The system also operates mostly on percent-of-liquids contracts, so margins have dwindled as NGL prices have declined.

The Wyoming system is located in Douglas County, WY and posted a net income of $5.1 million through 3Q/15. We expect the system's earnings to gradually decline over the coming years. Our outlook assumes 1 new well per month, with an initial production rate of 15 Mcf per day, will be drilled in the coming years.

The Piceance system earned over $3.5 million in net income through 3Q/15. The system is growing and we expect 2 wells per month to be drilled which will continue to raise output. Operators in the Piceance continue to drill despite weak natural gas prices, as drilling in the basin has already declined to minimal levels. Typical initial production rates average 600 Mcf per day with some wells producing over 1,000 Mcf per day at the outset. The system has a fee-based contract structure which has been averaging $.45/Mcf.

The Southern Oklahoma System earned $1.3 million through 3Q/15. The system is in decline as it is suffering from a lack of drilling. The system is contracted on a percentage of proceeds basis, but the revenue stream is totally based on natural gas since the system does not generate NGLs.

6.1.5 Discover System (Unconsolidated)

DPM owns a 40% interest in Discovery Producer Services, LLC, a natural gas gathering and processing system located in the eastern Gulf of Mexico. DPM's 40% interest in Discovery contributed $35 million in net income year-to-date 3Q/15.

As shown in Figure 13 below, the Discovery System includes the Larose processing plant with a capacity of 600 MMcf/d. Discovery gathers offshore production primarily from the new Keathley Canyon expansion and Contango Oil & Gas's Mary Rose offshore field in the Eugene Island area.

Figure 13 – Discovery System

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The Keathley Canyon Connector, a 209-mile subsea natural gas gathering pipeline for production from the Keathley Canyon, Walker Ridge and Green Canyon areas in the central deepwater Gulf of Mexico was placed into service during 1Q/15. It is supported by long-term fee-based agreements with the Lucius and Hadrian South offshore field owners, as well as the Heidelberg field owners, for natural gas gathering, transportation and processing services for production from those fields. It is also in proximity to other high-potential deepwater Gulf of Mexico discoveries and prospects. As Figure 14 indicates, Discovery volumes recently spiked after the Anadarko Lucius and the Exxon Hadrian South fields were brought online in 1Q2015, which ties into Discovery's Keathley Canyon Connector Pipeline. The Heidelberg field is scheduled to come online during Q1 2016. Volumes are expected to decline over time.

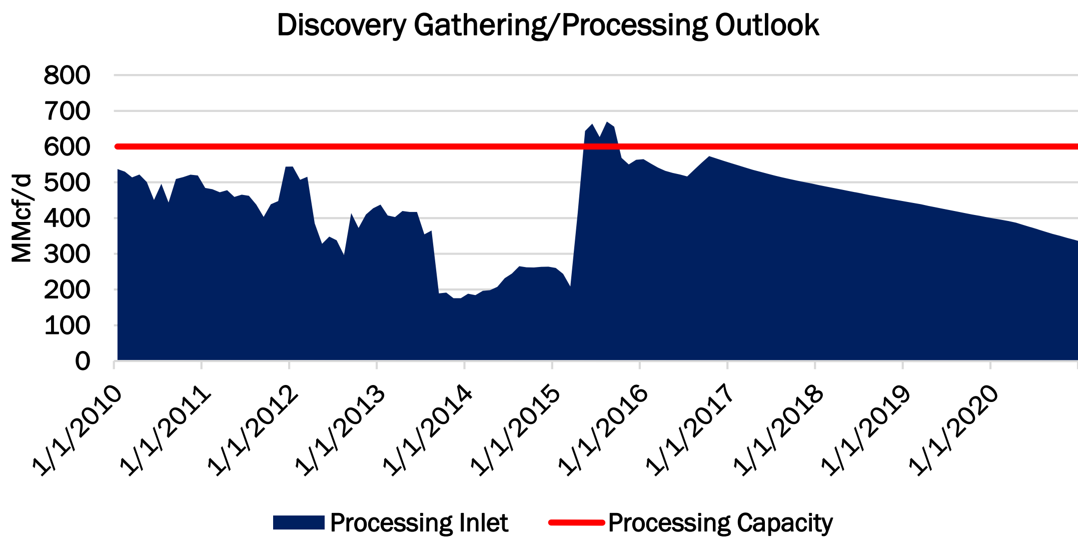

Figure 14 – Discovery System

6.2 Natural Gas Liquids

The Natural Gas Liquids segment consists of 4 significant consolidated NGL pipelines (and some additional minor consolidated pipelines) and an interest in 5 additional NGL pipelines. The NGL segment also owns two fractionators in the DJ basin, two Mont Belvieu fractionators and an NGL storage facility.

The consolidated assets of the Natural Gas Liquids segment are the Marysville NGL Storage Facility, the Wattenberg Pipeline, the Black Lake Pipeline, 2 fractionators and the Seabreeze and Willbreeze pipelines.

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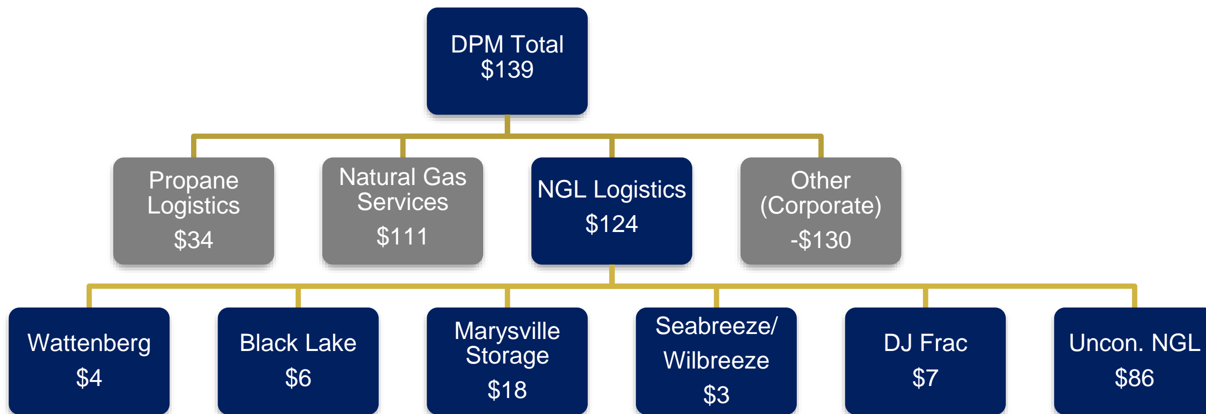

Figure 15 – Natural Gas Liquids Net Income YTD 3Q/15

The unconsolidated assets are clearly the most important businesses within the Natural Gas Liquids segment, accounting for 69% of net income and will be discussed in detail later in this section. Within the consolidated sector, Marysville Storage is the key asset, accounting for $18 million of net income, about 15% of segment profits. The DJ Basin Fractionators and the Black Pipeline accounted for an additional 6% and 5% of segment net profits, respectively.

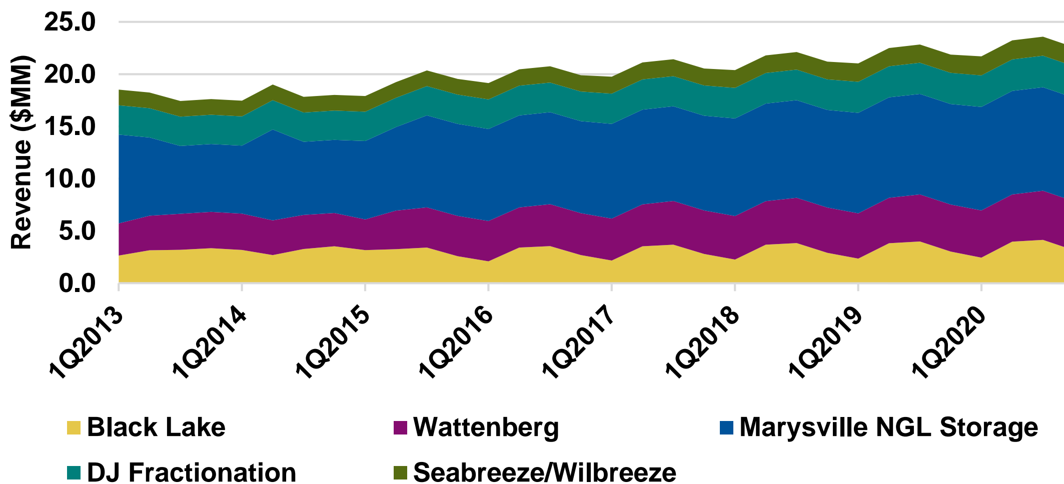

Figure 16 – Consolidated NGL Pipeline, Frac & Storage Revenue

6.2.1 Marysville NGL Storage

The Marysville NGL Storage facility is an eight-million-barrel propane and butane storage facility located in Marysville, Michigan which includes 10 underground salt caverns, rail, truck and pipeline connections providing an important supply point for refiners and wholesale propane distributors in the Sarnia, Midwest and Northeast markets. Because of its location it has access to Canadian NGL output. Marysville is the only consolidated asset in the NGL segment that is expected to significantly increase revenues going forward as seen in Figure 16. Marysville posted $18 million in net income year-to-date 3Q/15 and is expected to post $7 million in net income per quarter going forward.

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6.2.2 Wattenberg Pipeline

The Wattenberg Pipeline is a 500-mile pipeline that gathers y-grade NGLs from processing plants in the DJ Basin and delivers them to Hutchinson, KS for fractionation. Wattenberg earned $4 million in net income year-to-date 3Q/15. The pipeline runs close to its 22 Mb/d capacity and consequently has limited upside. As shown in Figure 17, volumes on the Wattenberg Pipeline decreased in late-2014 as a result of volumes being diverted to Front Range, which ramped up throughput starting in 2014. Wattenberg Pipeline throughput recovered in Q2 2015 after Front Range began operating at sufficient levels.

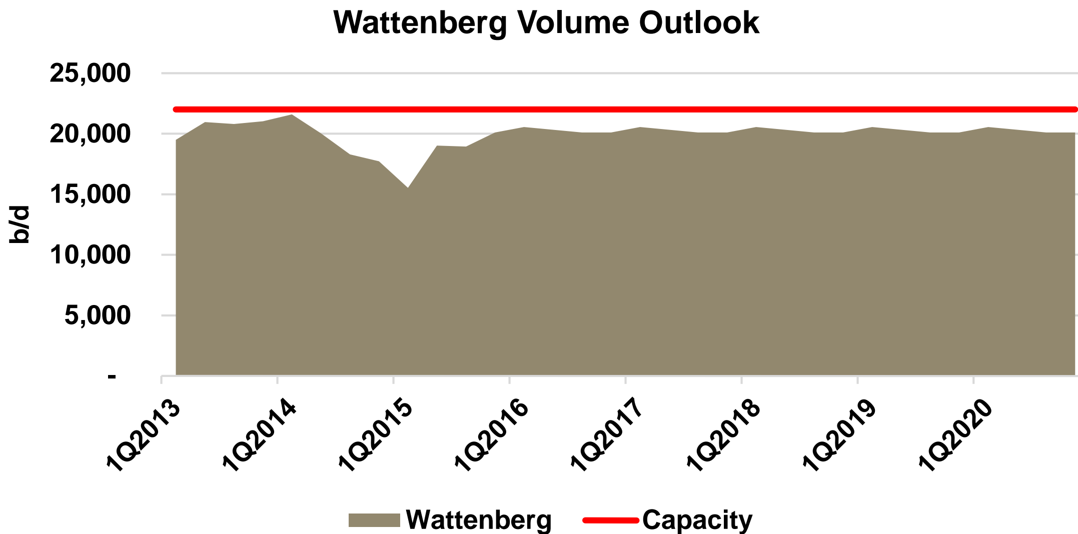

Figure 17 – Wattenberg Volume Outlook

6.2.3 Black Lake Pipeline

The Black Lake Pipeline serves DPM's North Louisiana System by delivering NGLs from the Minden processing plant and bringing them to fractionators in Mont Belvieu, Texas and other markets. The pipeline spans 317 miles and has a capacity of 40 Mb/d. The pipeline posted $5.6 million in net income year to date 3Q/15. Black Lake volumes are expected to remain flat over the coming years, so upside is limited to fee increases it may be able to pass on to customers.

6.2.4 DJ Basin Fractionators

Within the NGL segment are two 100% owned fractionators located in the DJ basin. These fractionators are located on DCP Midstream, LLCs processing plant sites that deliver NGLs to the fractionators under long term agreements. The fractionators posted a $6.7 million net income through 3Q/15 and profitability is expected to remain relatively static.

6.2.5 Seabreeze/Willbreeze Pipelines

The Wilbreeze NGL pipeline receives NGLs from DPMs Eagle Ford system, and the Sand Hills pipeline, as well as a third party plant, and delivers them to the Seabreeze pipeline and Enterprise's Eagle pipeline. The Seabreeze NGL pipeline then delivers the NGLs to a third party fractionator. The pipelines earned about $3 million in net income through 3Q/15, and there appears to be limited upside in the future.

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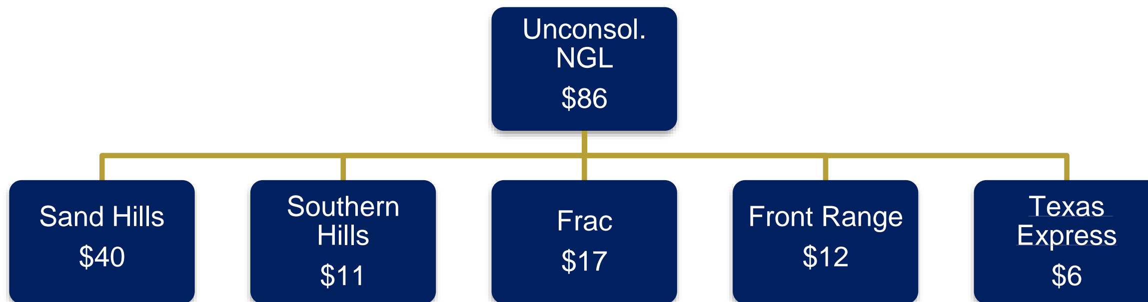

Figure 18 – Unconsolidated NGL

6.2.6 Sand Hills Pipeline

DPM owns a one-third interest in the Sand Hills Pipeline (DCP Midstream, LLC and Spectra are the other partners) that transports raw mix NGLs from the Eagle Ford Shale and the Permian Basin to Mont Belvieu. Sand Hills Pipeline receives Permian volumes from DCP Midstream, LLC plants and NGL gathering systems such as the West Texas LPG system. The pipeline has been ratcheting up its utilization and now operates at 95% of capacity. Sand Hills is expected to reach full operating capacity in 2016 as shown in Figure 19. The pipeline has been growing its quarterly net income quickly, $45 million in 3Q/15, and is expected to reach almost $60 million per quarter in 2020. DPM's one-third interest will generate $78 million in annual profit at that point.

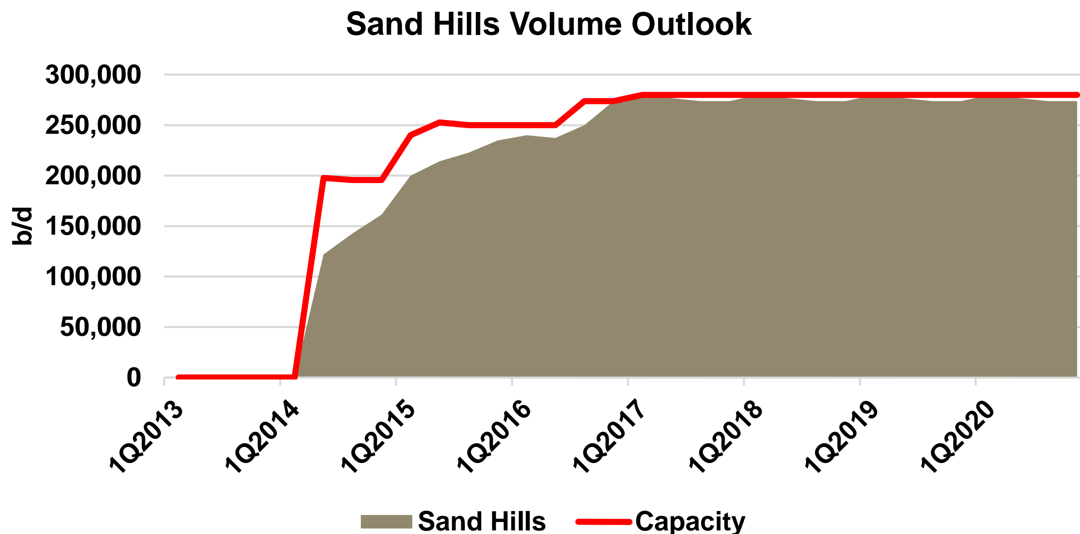

Figure 19 – Sand Hills Volume Outlook

6.2.7 Fractionators

DPM owns a 12.5% interest in the Enterprise fractionator and a 20% interest in the Mont Belvieu-1 fractionator operated by ONEOK Partners, both located in Mont Belvieu, Texas.

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The Enterprise fractionator earned $88 million in net income during the first three quarters of 2015, yielding DPM's 12.5% interest with $11 million in profits. Oneok's Mont Belvieu-1 earned $30 million in net income year to date 3Q/15, which translated into $6 million in net income for DPM.

6.2.8 Front Range Pipeline

DPM owns a one-third interest in the Front Range Pipeline. Front Range gathers raw mix NGLs in the DJ Basin and connects to the Texas Express Pipeline in North Texas, which transports NGLs to Mont Belvieu. The pipeline is jointly owned by DPM and Anadarko. Front Range is currently running well below capacity but is expected to receive most of the growth from the DJ Basin because the processors that control the NGL supply in the basin are connected to the pipeline via affiliated companies. Front Range is jointly owned by Anadarko, DPM, and Enterprise, Front Range and is expected to receive most of the NGLs processed by Western Gas and DCP Midstream, LLC in the DJ Basin moving forward. Overland Pass (a competing pipeline in the DJ Basin) currently transports about 40,000 b/d out of the DJ Basin, which are at risk of being diverted to Front Range Pipeline. The pipeline earns $16 million per quarter (about $5 million DPM's share) but is expected to grow to nearly $18 million ($6 million) in 2016 and nearly $20 million ($7 million) in 2017.

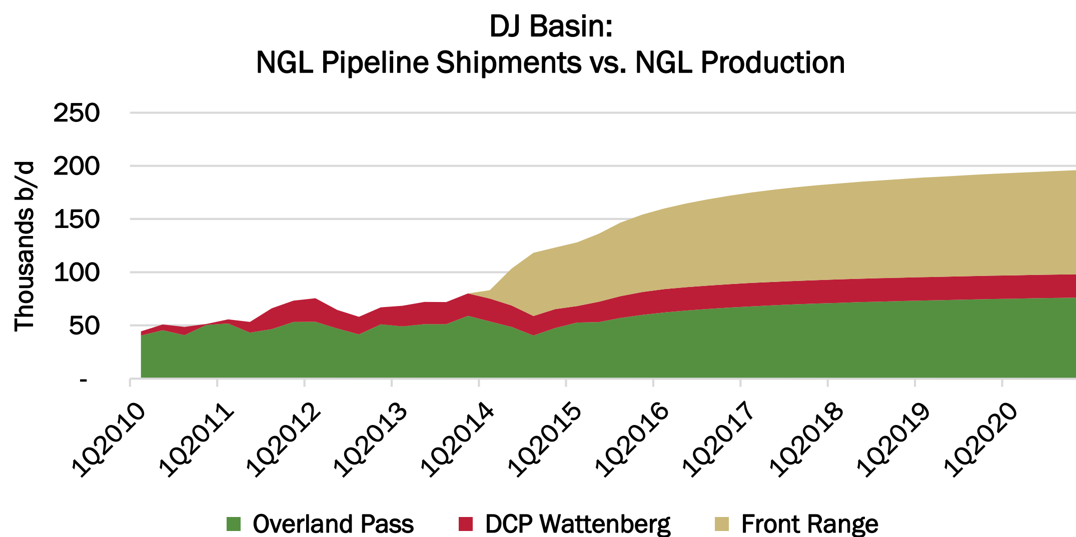

Figure 20 – NGL Pipeline Shipments vs. NGL Production

As Figure 20 illustrates, the Front Range Pipeline is expected to receive most of the growth from the DJ Basin because Overland Pass is filling with Bakken NGL volumes and Wattenberg Pipeline generally runs at capacity. However, it will still run well below capacity as Figure 21 shows. Front Range accesses a premium NGL price at Mt. Belvieu, vs. Conway. However, the implied rate is much higher on Front Range since it connects to Texas Express. The average rate from the DJ to Belvieu is $0.125 on Front Range, vs. $0.05 to Conway on Wattenberg.

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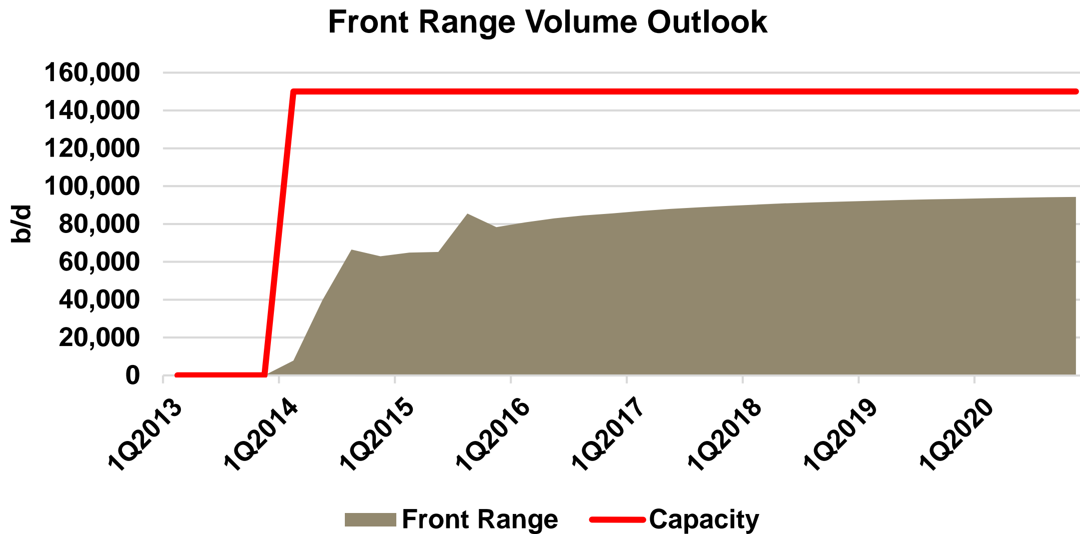

Figure 21 – Front Range Volume Outlook

6.2.9 Southern Hills Pipeline

DPM owns a 33% interest in the Southern Hills pipeline operated by DCP Midstream, LLC. The other partners in the joint venture are Phillips 66 and Spectra Energy. The pipeline gathers raw mix NGLs in Oklahoma, Kansas, and Texas for delivery to the Mont Belvieu market. As indicated by Figure 22, the Southern Hills pipeline was operating at 40% of capacity in third quarter 2015, but is expected to operate at more than 100 Mb/d once DCP Midstream, LLC connects its midcontinent plants to Southern Hills. DCP produces 95 Mb/d of NGLs in the midcontinent. Also DCP Midstream, LLC recently expanded its National Helium plant, another source of incremental throughput for Southern Hills. In addition, Targa has indicated it will be bringing more volumes to Southern Hills over the next few years. The pipeline also services the SCOOP and STACK plays, where output continues to grow. Southern Hills is a major competitor to OKS's Arbuckle Pipeline and the OKS Midcontinent NGL gathering system. For more information, see the ONEOK Spotlight Report, published in December 2015.

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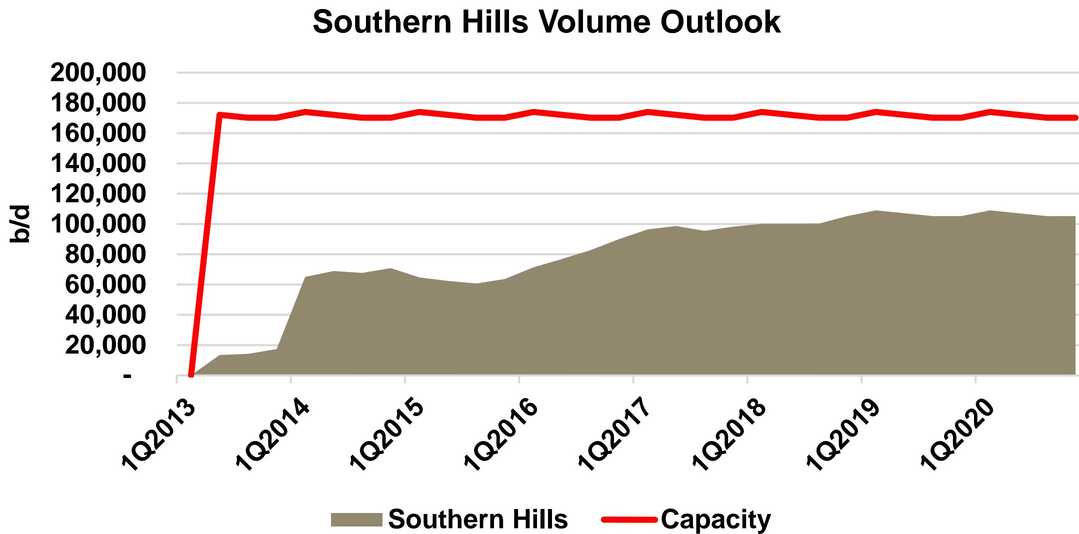

Figure 22 – Southern Hills Volume Outlook

6.2.10 Texas Express Pipeline

Texas Express is jointly owned by Anadarko (20%), Enbridge (35%), DPM (10%), and Enterprise (35%). It receives its supply from Front Range Pipeline and plants in the Texas Anadarko Basin. Texas Express will primarily benefit from Front Range volumes increasing from the DJ Basin, as well as competing for volumes in the Anadarko Basin. However, the Texas Anadarko Basin has witnessed a 75% decline in drilling rigs between 2015 and 2014 so gathering incremental supplies from this area will be challenging. The volume outlook for Texas Express is shown in Figure 23. Texas Express earned about $19 million per quarter in 2015 ($2 million to DPM's share) and is expected to reach $41 million ($4 million) per quarter in 2019.

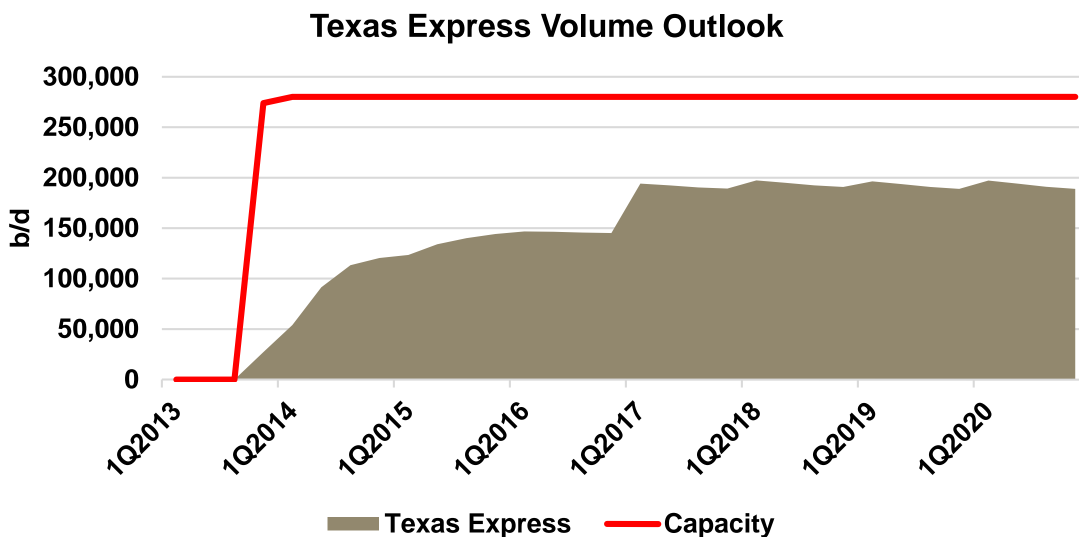

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Figure 23 – Texas Express Volume Outlook

6.2.11 Panola Pipeline Project

The Enterprise operated Panola Pipeline transports mixed NGLs from northeast Texas near Carthage in Panola County to Mont Belvieu, Texas. The pipeline supports production activities in the Haynesville Shale and Cotton Valley formations. DPM owns a 15% interest in the project with Enterprise (55%), Anadarko Petroleum (15%) and MarkWest Petroleum Partners (15%). A 60-mile northern extension coupled with a 50 Mb/d expansion via additional pump stations is expected to come online in Q2 2016.

6.3 Propane Logistics

The Propane Logistics segment provides stable, predictable cash flows since it serves seasonal demand markets in the Midwest and Northeast. Generally, colder winters will have a positive impact on this business, but it's expected to provide a steady baseload income for DPM in the future and a source of vertical integration to its upstream operations. The Chesapeake marine terminal located in Virginia and was converted to butane export service at the end of 2014, which provided a boost to Propane Logistics earnings starting in Q1 2015. The Chesapeake terminal is capable of exporting 7,000-8 Mb/d to international markets and is backed by minimum volume commitments. It has become a vital outlet for Marcellus oversupply of butane which has struggled to find a market outlet. Other NGL products, such as ethane and propane, previously found outlets via ATEX Pipeline and Northeast heating demand.

7. DPM Financial Outlook

This section of the report examines a possible financial outlook for DPM based on the analysis of the company's market fundamentals and operations as described above. Note that this analysis is provided for reference only, and should not be viewed as investment advice. Neither RBN Energy nor East Daley Capital are investment advisors. Neither company provides investment, financial, tax, or other advice, nor does either company operate as a broker-dealer. The companies do not recommend the purchase or sale of any particular securities.

7.1 Income Statement (2014 – 2017 Outlook)

Based on the analysis in this report, DPM's net income is expected to decline nearly 50% in 2015. Earnings are expected to rebound in 2016, but will decline in 2017. The Natural Gas Services business net income is expected to reach $183 million in 2015, 61% below 2014 results due to goodwill impairments and lower commodity prices. A bright spot is the 40%-owned Discovery System, the Gulf of Mexico gas gathering and processing unit, which is expected to account for $53 million in net income in 2015. Another bright spot in the NGS segment is the DJ Basin division where net income may grow over 61% to $28.3 million in 2015. The remaining Natural Gas Services businesses are expected to be lower as a result of weaker commodity prices. Their largest segment, the Eagle Ford System, is expected to see net income fall more than 60% to $58.6 million.

The Natural Gas Liquids segment had strong performance in 2015 but not enough to offset the significant decline in the Natural Gas Services segment. We expect 2015 net income to be up 47% to $173.8 million. DPM's non-consolidated assets are some of its best businesses, particularly the Sand Hills Pipeline, which is supposed to double net profits to $55.7 million in 2015. The 33% owned Front Range Pipeline is expected to post a five-fold increase in net income to $17.6 million. The Marysville Storage unit was its largest and best performing

consolidated business in 2015. We think net income will reach $26.1 million in 2015, 43% higher than 2014.

The Propane Logistics segment is small but grew sharply in 2015 due to the cold weather affecting its markets. In 2014, the unit posted a $5 million net income. In 2015 we expect the Propane Logistics segment to earn $43.4 million, a healthy increase in net income due to colder than normal weather and the addition of a butane export facility in Virginia.

($ in Millions)					
				Cutback Scenario	
	FY 2014	9 Months ended 9/15	FY 2015E	FY 2016E	FY 2017E
Natural Gas Services					
Eagle Ford System	$156.8	$49.6	$58.6	$33.5	$24.5
DJ Basin System	$17.6	$19.7	$28.3	$33.3	$30.8
East Texas System	$62.0	$13.5	$15.5	$9.0	$6.9
Other Consolidated NGS Assets	$66.0	$23.0	$29.0	$25.0	$23.0
Discovery System	$5.0	$35.0	$52.8	$63.1	$58.4
Goodwill Impairments/Other	$5.0	($87.0)	($87.0)		
Derivatives	$157.0	$57.0	$86.0	$96.1	$38.4
Total Gathering & Processing	$469.4	$110.8	$183.2	$260.0	$182.0
NGL Logistics					
Marysville Storage	$18.3	$18.0	$26.1	$27.0	$28.0
Wattenberg Pipeline	$7.1	$4.0	$6.0	$7.5	$7.5
Black Lake Pipeline	$8.2	$5.6	$7.6	$8.9	$9.7
DJ Basin Fractionators	$8.8	$6.7	$9.0	$9.1	$9.3
Seabreeze/Willbreeze Pipelines	$4.4	$3.5	$4.6	$4.8	$5.1
Sands Hills	$24.0	$40.0	$55.7	$66.7	$74.3
Fractionators	$28.0	$17.0	$25.0	$28.0	$28.4
Front Range	$2.9	$12.2	$17.6	$23.7	$27.1
Southern Hills	$16.0	$11.2	$14.2	$23.4	$33.1
Other Unconsolidated Pipelines	$3.3	$5.8	$8.1	$12.7	$18.2
Total Natural Gas Liquids	$121.0	$124.0	$173.8	$211.8	$240.6
Propane Logistics					
Propane Logistics	$5.0	$34.0	$43.4	$28.3	$27.8
Other	$0.0	$0.0	$0.0	$0.0	$0.0
Total Propane Logistics	$5.0	$34.0	$43.4	$28.3	$27.8
Corporate/Other	($169.5)	($130.0)	($174.0)	($180.0)	($181.3)
Net Income	$425.9	$138.8	$226.3	$320.1	$269.2

7.2 Balance Sheet

DPM's balance sheet slightly deteriorated since December 31, 2014, but still remains in solid shape with a 43% debt to capital ratio. The company has most of its growth capital spending behind it, so we do not expect debt to increase significantly over the next several years. The company estimates capital spending between $100-200 million in 2016. DPM also said it will not need to raise capital in 2016.

DCP Midstream Partners Balance Sheet ($ in Millions)			
	9/30/2015		12/31/2014
Assets:			
Current Assets	$368		$590
PP&E, net	$3,483		$3,347
Investments in Unconsolidated Assets	$1,490		$1,459
Other Assets	$228		$343
Total Assets	$5,569		$5,739
Liabilities & Capital:			
Current Liabilities	$510		$601
Long Term Debt	$2,179		$2,061
Other Liabilities	$48		$51
Total Liabilities	$2,737		$2,713
Shareholders Equity	$2,832		$3,026
Total Liabilities & Capital	$5,569		$5,739
Debt/Total Capital	43%		40%

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7.3 *Longer Term Outlook*

DPM has a strong portfolio of equity investments in gas gathering systems and NGL pipelines that should hold earnings stable in the face of declining margins in its consolidated businesses. The company's Natural Gas Services unit is expected to see margins shrink as it has the most exposure to marginal plays such as the Eagle Ford Shale and East Texas. DPM's Eagle Ford System, its largest system, is expected to see net income slashed by 63% in 2015 to $59 million and should see earnings decline another 58% through 2017. Net income for the East Texas System is expected to increase marginally in 2015 to $15.5 million but margins are likely to reverse course and be cut more than one half by 2017. The 40% owned Discovery System is a relative bright spot. We expect net income from Discovery to increase to $63.1 million in 2016, but believe net income will fall off to $58.4 million in 2017.

The NGL Pipeline unit is expected to be another bright spot for DPM. Net income for the NGL Pipeline segment is expected to increase 46% in 2015 to $174 million and add another 38% by 2017. The Sand Hills Pipeline is the most important asset in this portfolio, and is expected to earn $55.7 million in 2015, more than double 2014 results. Earnings are expected to grow another 33% by 2017. The Southern Hills Pipeline, another strong asset, is expected to add substantive growth in 2016 and 2017, increasing DPM's share of net income from $16 million in 2014 to $23.4 in 2016 and $33.1 million in 2017. Increased output from the DJ basin will help the Front Range Pipeline's contribution to the bottom line. DPM's share of the Front Range Pipeline was $2.9 million in 2014, and is projected to hit $17.6 million in 2015 and continuing to increase, reaching $27.1 million in 2017.

The Marysville Storage unit is the best performing consolidated asset, which is expected to grow net income by 43% to $26.1 million in 2015. We think Marysville Storage will increase earnings by an additional 7% through 2017.

Both the Wattenberg Pipeline and the DJ Basin fractionators service the DJ Basin. The Wattenberg Pipeline net income is expected to decline by 16% in 2015 to $6 million due to NGL volumes diverted to Front Range Pipeline as that pipeline's in-service impacted Wattenberg's operations in 2014-2015. Wattenberg Pipeline net income is expected to flatten at $7.5 million as the pipeline generally runs full. The DJ Fractionators are expected to have slow growth, increasing net income by 2% in 2015 to $9 million and another 3% by 2017.

The Propane Logistics business is small and does not make a significant impact on total company earnings. Net income is expected to reach $43 million in 2015, but fall back to about $28 million in 2016 and 2017 as we assume normal weather patterns in our forecast.

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