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Spectra Energy (SE) Earnings Report: Q1 2015 Conference Call Transcript

The following Spectra Energy conference call took place on May 6, 2015, 09:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Julie Dill; Spectra Energy Corp; CCO
- Greg Ebel; Spectra Energy Corp; Chairman, President, CEO
- Pat Reddy; Spectra Energy Corp; CFO
- Bill Yardley; Spectra Energy Corp; President - U.S. Transmission

Other Participants

- Jennifer Hills; UBS; Analyst
- Darren Horowitz; Raymond James and Associates; Analyst
- Brandon Blossman; Tudor, Pickering, Holt and Co. Securities; Analyst
- John Edwards; Credit Suisse; Analyst
- Carl Kirst; BMO Capital Markets; Analyst
- Becca Followill; U.S. Capital Advisors; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good morning. My name is Heather and I will be your conference operator today. At this time I would like to welcome everyone to the Spectra Energy and Spectra Energy Partners earnings call. (Operator Instructions)

I will now introduce your conference leader, Julie Dill, Chief Communications Officer. You may begin your conference.

Julie Dill (CCO):

Thank you, Heather, and good morning, everyone. I appreciate you joining us today for our review of Spectra Energy's and Spectra Energy Partners' 2015 first-quarter results. With me today are Greg Ebel, CEO of both Spectra Energy and Spectra Energy Partners; Pat Reddy, Chief Financial Officer of both companies; and Bill Yardley, President of our U.S. Transmission segment.

You will hear from both Greg and Pat this morning as they go through our results for the quarter and provide an update on our Drive to 35. We will, of course, leave plenty of time for your questions. And with so many projects and execution and development originating at U.S. Transmission business, Bill is here to help answer questions you may have on those topics.

Our Safe Harbor statement is contained within our presentation materials and available on our Web site. This disclaimer is important and integral to all our remarks, so I would ask that you refer to it as you review our materials. Also contained in our presentation materials are non-GAAP measures that were reconciled to the most directly comparable GAAP measures, and those reconciliations are also available on our Web site.

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With that, let me turn things over to Greg to make a few opening remarks.

Greg Ebel (Chairman, President, CEO):

Thanks very much, Julie, and good morning, everybody. Thanks for joining us. Before Pat speaks to the numbers for the quarter, I thought I would take a little bit of an opportunity to give you my perspectives on the results and give you a quick update on our structuring efforts at DCP Midstream. So let's start there.

As you recall, in February we discussed that we were working with Phillips 66 to overcome the short-term challenges at DCP caused by the rapid drop in commodity prices and that we were also working to ensure that over the long-term DCP and DPM were set up in a manner that provides the best opportunity for us to realize their full value. While there's still work to be completed, I am pleased to or that we have made good progress on both fronts during this quarter.

To address its short-term needs, DCP Midstream worked with its bank group to amend its bank revolver and DCP has also taken action to reduce corporate costs and its capital budget. And, of course, we continue to work on a longer-term structural solution. As we drive to the right solution, let me reiterate our structuring objectives.

First, we are working to ensure that the entire DCP complex is structured to achieve an optimal balance of fee-based and commodity-exposed contracts. Second, we expect to establish a foundation of sustainable cash flows and distribution for our public unit-holders while retaining the upside that will occur when commodity prices ultimately recover for the sponsors, Phillips 66 and ourselves.

Third, we will ensure that any ultimate structuring still allows the DCP complex to retain and grow its number one position in NGL production and gas processing and that it positions DCP to efficiently finance that growth. So work continues on this front, and we expect to have a solution to share with you in the coming months.

Moving to our first quarter, at Spectra Energy we delivered a strong start to the year. We exceeded our plan expectations for the quarter, even overcoming a lower than anticipated commodity environment and a weaker Canadian dollar.

The quarter, I think, was a good example of the [stability] and sustainability of our overall earnings and cash generation. Our base businesses continue to perform very well, and we achieved record delivery this past winter on our major pipeline systems, Texas Eastern, Algonquin, Union's Dawn-Parkway system, and T-South in western Canada.

That kind of utilization bodes well for future contract renewals and demonstrates the ongoing need for additional pipeline infrastructure that we will build for our customers' growing demands. And with the strength of our U.S. Transmission and liquids business, SEP continues to roll along delivering solid results in its own right as it brings new expansion projects into service.

As you know, SEP's fee-based earnings have virtually no volume commodity exposure, a unique and attractive benefit for SEP unit-holders and Spectra Energy shareholders in these times. Thanks to a colder than normal winter, Union Gas beat its own expectations for the quarter. This occurred despite the lower Canadian dollar.

Western Canada continues to perform well in both a tough gas drilling and currency environment, and DCP's earnings were in line with its first quarter plans, as it did a good job overcoming lower than anticipated commodity prices. The DCP management team has done an excellent job of proactively managing through the current environment by reducing costs and enhancing operating efficiencies to

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ensure that they meet their expectations.

Very importantly, we are also ahead of expectations from a cash generation perspective. This again underlines the strength of Spectra Energy's portfolio of businesses and our ability to consistently generate strong cash flows in various market cycles. It also reinforces my own confidence in our ability to deliver annual dividend growth of $0.14 per share while maintaining coverage at or above one times.

So I'll be back shortly to talk about the excellent progress we're making on our Drive to 35, but for now I will turn things over to Pat to talk about the detailed financial results for the first quarter compared to last year. Pat?

Pat Reddy (CFO):

Thanks, Greg, and good morning, everyone. As you have seen from our earnings release, we delivered solid first quarter results with ongoing EBITDA of $788 million at Spectra Energy and $445 million in Spectra Energy Partners. As expected, Spectra Energy's EBITDA was down quarter over quarter due primarily to the significant drop in commodity prices combined with a weaker Canadian dollar.

And while we experienced another cold winter, weather was generally comparable across most periods. SEP's ongoing EBITDA was up almost 8% over last year's first quarter, reflecting increased earnings from expansion projects and helped by virtually no exposure to commodity price or volume fluctuations.

So, I would draw your attention to the bottom of slide four as we take a look at the drivers of our EBITDA results by segment. I'll start with Spectra Energy Partners, which is comprised of our U.S. Transmission and liquids businesses. U.S. Transmission's ongoing EBITDA $398 million was $24 million higher than the first quarter of 2014.

This quarter's results primarily reflect increased earnings from two expansion projects we placed into service last year, TEAM 2014 and TEAM South, as well as the Kingsport Project that commenced service earlier this year. 2015 results exclude a $9 million special item related to an impairment of Ozark gas gathering assets.

Our liquids business reported first-quarter EBITDA of $64 million compared with $58 million in 2014. The increase was primarily driven by higher equity earnings from the Sand Hills natural gas liquids pipeline, reflecting increased volumes year over year. The Express and Platte crude pipelines also continued to deliver strong results in the quarter, which were in line with our expectations.

Distribution reported first-quarter EBITDA of $192 million compared with $226 million in 2014, a decrease quarter over quarter was due mainly to the decline in the value of the Canadian dollar, which was 13% weaker this quarter.

Also, first-quarter 2014 results included regulatory decisions from the Ontario Energy Board that in the aggregate provided a $10 million benefit to the segment's 2014 results. Without those items, distribution's EBITDA was in line with last year, so the base business continues to be strong.

Western Canada Transmission & Processing reported EBITDA for the quarter of $161 million compared with $237 million in 2014. As expected, earnings were lower at Empress, reflecting weaker commodity prices primarily for propane, which was about 70% below 2014's price levels. Furthermore, we recorded non-cash mark-to-market commodity-related pricing adjustment of negative $22 million.

But as we discussed last quarter, with implementation of a risk management program at Empress, we are focused on stabilizing cash flows. We said we expect Empress to generate approximately $30 million of cash for the year and we are on track to achieve that result.

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Western Canada's earnings were also lower due to the weaker Canadian dollar. But as a reminder, while this change in the currency brought with it a headwind that reduced EBITDA by a combined $43 million in our two Canadian business segments, we are partially hedged on the net income basis. The FX effect on net income was $20 million in the first quarter of this year for our Canadian business.

Moving to DCP, our 50% share of DCP's ongoing earnings was a negative $14 million for the quarter, which was $144 million less than in 2014. As expected, the decrease is primarily due to significantly lower commodity prices and a decrease in equity gains associated with the issuance of partnership units by DCP Midstream Partners .

These decreases were partially offset by earnings from expansions, improved operating efficiencies, and cost savings from various initiatives. While we would certainly prefer a stronger commodity environment, DCP has done a great job of controlling what they can and meeting the business budget goals in an environment where commodity prices are down 50% from last year's levels.

DCP's 2015 ongoing results exclude a special item of $3 million for our share of cost related to organizational changes that were recognized during the quarter. Additional costs related to these changes will be incurred for the remainder of this year.

So in total, Spectra Energy's EBITDA was down quarter over quarter, as expected. Importantly, however, despite both commodity prices and currency being weaker than we had forecast, these results exceeded our expectations for the 2015 quarter. The same holds true for our distributable cash flow, so let's take a look at our DCF schedules, beginning with SEP.

SEP's standalone distributable cash flow for the quarter was $354 million, $30 million more than the same quarter last year, with distribution coverage of 1.5 times. This higher DCF was direct the attributable to EBITDA generated by U.S. Transmission from expansion projects and higher volumes at Sand Hills pipeline and the liquids business.

For the full year we expect SEP's coverage to be 1.1 times, in line with our 2015 forecast. We remain confident in our ability to increase our quarterly distribution by a $0.0125 per unit while maintaining our distribution coverage at or above one times. SEP paid general partner and limited partner distributions to Spectra Energy for the quarter of $52 million and $142 million, respectively.

Let's turn now to Spectra Energy's distributive or cash flow. At SE, distributable cash flow was $578 million for the quarter compared with $631 million in last year's order. Coverage was a very strong 2.3 times and DCF per share was $0.86. Now, just as a reminder, there is some seasonality in our cash flows, our coverage will be lower in the second and third quarters. But as we laid out in February, we continue to expect coverage to be 1.2 times on a full-year basis.

While our EBITDA was down period to period, so were our cash taxes. We received a higher tax refund in the first quarter of 2015 due to the accrual of bonus depreciation late in 2014. And our interest expense was lower compared to last year, mainly due to the weaker Canadian dollar as well as lower average long-term debt balances.

As you would expect, given the level of growth we are pursuing and achieving, we have been busy on the financing from. We closed out our $400 million ATM continuous equity offering at SEP, initiated a new $500 million offering which we expect to utilize throughout the year. Also in the first quarter SEP successfully completed $1 billion debt issuance at attractive rates in furtherance of our efforts to sufficiently fund our growth investments.

Total available liquidity across the entire Spectra Energy enterprise was $3.5 billion as of March 31.

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So, while we know it's early in the year, we are feeling very good about how the businesses continue to perform. Despite commodity prices and the Canadian dollar being weaker than we had anticipated when we put our budgets together, we are ahead of where we thought we would be at this time in terms of both EBITDA and distributable cash flow. And these are both positive indicators of a strong year ahead. We are pleased with how we started the year and expect to continue to deliver on the commitments we made for the balance of the year.

So with that, let me turn things back to Greg to talk about our growth opportunities and the progress we're making on our Drive to 35.

Greg Ebel (Chairman, President, CEO):

Thanks very much, Pat. As you have just heard, Spectra Energy in Spectra Energy Partners' first-quarter results really benefited from new assets we put in the ground last year. And this ability to consistently deliver our projects into service as planned allows us to take advantage of opportunities to grow, reach new markets, and enhance our pipeline systems.

So let's take a look at how we are doing on that front. We have several projects scheduled to go into service us year, so let me begin with those. At U.S. Transmission, two projects, OPEN and Uniontown to Gas City, are under construction and scheduled to commence service in the fourth quarter. The OPEN Project will bring incremental Marcellus and Utica supply to Southern markets and the Uniontown to Gas City project will deliver gas to the Midwest.

Together, these two projects along with TEAM 2014 and TEAM South, which you will recall we brought into service last year, represent about two-thirds of the 2.4 BCF a day in projects that will fully transform Texas Eastern into a bidirectional system by 2017.

At our liquids segment, we are constructing the Red Lake project to expand the reach of Sand Hills to access growing Permian Basin production. The project is scheduled to go into service during the second quarter. We're also on track with the construction of our 2015 Dawn-Parkway project, which is the first of several expansions we are advancing along the Dawn-Parkway path at Union Gas. This project is scheduled to go into service at the fourth quarter of this year.

In February DCP put its Keathley Canyon Connector gathering line in the Gulf of Mexico into service. This project is part of the Discovery joint venture, which is a jointly owned operation between DCP Midstream Partners and Williams partners. And DCP has a couple of other projects including the Lucerne II and Xia II plans, which are scheduled to be put into service later this year, as well.

All told, by this year and we have brought in or will have brought in in excess of $2 billion of projects into service, adding additional earnings and cash flow growth in 2016 and beyond.

Other projects we have an execution are also proceeding very well. At SEP, we continue making progress on our NEXUS Project and anticipate filing a formal FERC application later this year. We completed our subsequent open season for the project, adding upstream capacity on Texas Eastern for up to 950 million cubic feet per day and creating a direct path from Marcellus and Utica supply to reach NEXUS markets.

During the quarter the AIM Project in New England received its FERC certificate and will begin construction shortly. The project is 100% subscribed by New England's major local distribution companies and is on track for an in-service date in the second half of 2016.

The Atlantic Bridge project continues to move forward and we will file its form of FERC application later this year. The FERC approval process is the last step before building the project, which has a final scope of approximately 150 million cubic feet per day and a capital cost of about $650 million. This project

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scope will ensure we meet the needs of the LDC and industrial customers who require service in 2017.

Our Gulf markets, East Tennessee Loudon and Sabal Trail projects are all on track for the respective in-service dates. You may have seen that Duke Energy announced it is taking 7.5% investment interest in Sabal Trail, joining Spectra Energy and NextEra as project owners, as expected. We continue to be on track to secure regulatory approvals on this project by early 2016 and meet our 2017 in-service date.

On another front, just last week we received regulatory approval from the Ontario Energy Board for the 2016 Dawn-Parkway project. So that project remains nicely on track as well.

And work continues on the two new projects in Western Canada to expand our BC pipeline. Jackfish Lake is a supply push project and the reliability and maintainability project or the RAM Project, is a demand-pull project. Both of these pipeline expansions are on track to be in service in 2017.

Importantly, during the quarter we moved to new project, the Express enhancement, into execution. This $135 million project is underpinned by long-term fee-based contracts and will maximize the system throughput on our Express pipeline through the addition of on-system terminaling and storage assets. The Express enhancement project is expected to go into service in 2016.

So we have an impressive line of projects and execution, projects that will deliver the earnings and cash flow we have set in our three-year plan. But we're looking well beyond the three-year horizon, of course, and we have a healthy backlog of project and opportunities that lead to continued growth and value creation.

We are working diligently to move those projects forward. With more than $7.5 billion in service since 2013 and more than $9 billion in expansion projects in execution we remain confident in our ability to deliver on our pledge to secure $35 billion of expansion projects through the end of the decade.

Let's take a look at some of our projects that are in development. I will begin with our Access Northeast project at SEP. While AIM and Atlantic Ridge have primarily been contracted by LDCs, Access Northeast will mainly serve the electric power market. As many of you know, Access Northeast will improve electric reliability in New England by helping to supply the vast majority of the region's most efficient gas-fired generation.

The project will expand our Algonquin and Maritimes & Northeast systems and utilize their existing footprints. We are developing the project with Eversource and National Grid who give a strong competitive advantage and valued insight as together they serve 4.8 million of the 6.5 million electric customers in the region.

The open season for Access Northeast ended on May 1, and we are moving to finalize and sign binding contracts with customers. Not surprisingly, we expect that Eversource and National Grid will be key customers and will contract for a significant portion of the project's capacity. We anticipate moving Access Northeast into execution later this year.

As mentioned earlier, our Northeast pipeline set new delivery records this past winter, a sure sign that additional infrastructure is needed. We believe that the region's policy makers understand that New England needs more low-cost gas to ensure reliability, wintertime price stability, and the region's competitiveness, as evidenced by the recent New England governors' summit meeting on energy.

In addition to the Access Northeast project, we have already conducted several open seasons this year to projects that would further connect Marcellus and Utica supply to demand markets. Texas Eastern's proposed Lebanon Extension Project will provide shippers with the opportunity to obtain firm transportation service to deliver new natural gas supplies to markets in the Midwest U.S. We concluded

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our open season for the project in late March and we are targeting a project of about 100 million cubic feet per day. We expect this project to go into service during the second half of 2017.

Our open season for the Marcellus to market expansion of Texas Eastern closed April 10 and results indicate strong interest from shippers for firm transportation that will deliver new incremental production to markets in the Northeast. The target in-service date for the Marcellus to market project is the second half of 2017.

Our proposed Greater Philadelphia Expansion Project extends our Texas Eastern system to provide shippers with firm transportation to delivery points along or near the existing Philadelphia Lateral. The project's open season closes this week so we will be analyzing the market interest and could be targeting an expansion in the region as early as the second half of 2018.

These three Appalachian expansion projects represent an incremental growth CapEx opportunity of $750 million to $1.5 billion, over and above what we already have in execution.

At Union Gas, our 2017 Dawn-Parkway project recently completed its open season and received strong customer support. Commercial contracts are being finalized and we expect to file this project with that OEB midyear, at which point we will also move it into execution. And we continue to see demand growth in Ontario. So, we are exploring the possibility of further expansion of the Dawn-Parkway system in 2018.

Today you will see in Western Canada that we are announcing a binding open season on our T-North pipeline system in Northeast BC. This is a supply-push project and is driven by Spectra Energy's ability to add timely capacity at competitive rates to serve this important region of Western Canada.

Finally, work continues on the Westcoast Connector project in Western Canada, which is well-positioned with its approved corridor for two pipelines. It's important to note that the Westcoast Connector is the only project within approved multi-pipe corridor in British Columbia. Given the current global LNG pricing environment, we believe that this unique position provides attractive cost synergies for any future BC LNG investments.

So, we are off to a good start for the year and we know our investors expect nothing less from us, given our significant fee-based business model. Spectra Energy has demonstrated its ability to succeed in the midst of various business cycles. We have got a superior asset footprint that connects us to not only premium supply basin but also to go growing demand markets, a great portfolio of high-performing fee-based businesses, and a powerful platform for ongoing expansion.

As indicated when we rolled out our plan in February, we have virtually no volume or commodity exposure at SEP, and at Spectra Energy our incremental commodity exposure as it affects our DCF is extremely limited as well. Both of these advantages are reflected in our first-quarter results, which exceeded our expectations despite lower than anticipated pricing.

Our outlook for capital expansion continues to be very positive. We have already contracts really secured a significant portion of our Drive to 35.

Lastly and most importantly, our solid base businesses plus the growth we have already secured support our commitment to grow our dividend by $0.14 per share annually with coverage at or above one times.

So thanks very much for joining us, and I will turn things over to Julie so we can take your questions.

Julie Dill (CCO):

Thanks, Greg. Now we are happy to take your questions. So Heather, if you would please, provide instructions on how folks can ask those questions.

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QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Jennifer Hills with UBS.

Jennifer Hills (Analyst - UBS):

Good morning, calling in for Shneur Gershuni. We had a question about the Northeast project. We understand that Kinder is getting traction but based on your comments it sounds like there's no risk of any delays to your project in the area. Can you talk about that a little bit?

Greg Ebel (Chairman, President, CEO):

Sure. Well, I obviously can't speak to Kinder directly, but, obviously, we can tell you about what we think we are able to achieve. Fortunately, Bill is here, who is very much in charge of handling that. Bill, do you want to address that?

Bill Yardley (President - U.S. Transmission):

It's overall delays. We are really not -- oh, I'm sorry. One thing we pride ourselves on is our ability to get these projects done along our existing footprint in the Northeast.

It's one of the things we've done, whether it's to expanding Texas Eastern to the east with the six or seven projects we've done over the last several years or expanding up into New England with AIM, Atlantic Bridge. And Access Northeast is really much the same. So, we are still on track for 2018 to get some or all of the project in-service and meet the electric needs.

Greg Ebel (Chairman, President, CEO):

I think the really key thing is, again, what we see is a real competitive advantage is the fact that we got close to 5 million out of the 6.5 million customers on the electric side, represented by Eversource and Grid, we think is a powerful indication of the need for our project and the commercial acceptability of our project as well.

Jennifer Hills (Analyst - UBS):

And just one other question. On maintenance CapEx and DCF for Spectra Energy , it was a lot lower than we had anticipated if you look at the guidance for the year. Is there certain timing that you are expecting with that? Is it back-end loaded?

Greg Ebel (Chairman, President, CEO):

I think there's two things. I think there's some timing. We don't straight line that. Much of the work on the maintenance is typically done another quarters, but also impacting that would be the Canadian dollar. So much of our maintenance capital is done in Canada, so that would also have an impact as well.

Jennifer Hills (Analyst - UBS):

Great, thank you. That's all I had.

Operator:

Darren Horowitz with Raymond James.

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Darren Horowitz (Analyst - Raymond James and Associates):

A couple quick questions, the first going back to the Marcellus and Utica supply to demand market context that you guys detailed, if you look at what you're doing with that Lebanon expansion and the Marcellus to market expansion on Texas Eastern and then, of course, in Philadelphia, obviously there's some variability in terms of CapEx.

And I'm just wondering outside of the 100 million cubic foot a day that you detailed that the Lebanon project could represent, what do you think the scale and scope of those expansions ultimately would be?

And from a time to market perspective just based on the competitive landscape and certainly the oversupply in the area, do you think that there's any opportunity for maybe those to get the green light added to backlog quicker and from a net probably present value be more of more benefit for future organic growth income?

Bill Yardley (President - U.S. Transmission):

So it's Bill Yardley. I think I got most of those questions. In terms of the scale and scope of the projects that we have in origination now, there is a fair amount of variability. Philly is probably the biggest variable. We have identified a really good lift and relay project down the Philly Lateral.

That's probably an area that's next in line in our system is the most constrained beyond New York, which, of course, we solved a couple of years ago, and New England, which we are well on the way to solving with these three projects, AIM, Atlantic Bridge, and Access Northeast. Philly probably the next biggest constrained area, but we probably have a project that's in the $1 billion range, maybe 0.5 BCF a day to the Philly load. We will see what the season brings on May 8.

To your question on getting things in service quicker, I think we all know the regulatory process and the permitting process isn't getting any easier as time goes on, nor is it any easier as you head north and east in the US. So difficult to see where we can get things in quicker but I do think we have realistic timelines on these projects.

Greg Ebel (Chairman, President, CEO):

Also those projects really underline the fact that a lot of this really isn't greenfield. And one of the real advantages, as we have often said, is being where the lights are, and Bill's projects and work his guys are doing really accentuate that.

So some of the projects may be relatively small CapEx, but very powerful, obviously, for our customers. And then some other projects like the Philly Lateral would be significant builds. But you got it right, it's a tough area.

Darren Horowitz (Analyst - Raymond James and Associates):

I think it makes the world of sense. And Bill, I would love your opinion. But it seems like especially when you talk about Access Northeast leveraging your footprint with Algonquin and M&N, I think is a significant advantage that you would have with regard to some of the other competing pipes and certainly from a regulatory perspective. Is that the right way to think about it?

Bill Yardley (President - U.S. Transmission):

Yes, it certainly is. Really, without talking about competitors, we have looked at greenfield in the area. And the fact is, this is a peak problem, number one. So you don't want to overbuild the summer. Number two, you have got to get -- you got to take advantage of whatever resources you have there both from a

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stakeholder outreach perspective, from a timing perspective, and right sizing the developments to meet the market needs and get solid returns.

Darren Horowitz (Analyst - Raymond James and Associates):

If I can also switch very quickly just to Express-Platte, outside of the $135 million project that you talked about from and on-system enhancement perspective, any update regarding your pursuit of twinning the system, or just the ability, especially with where differentials are today, the ability to move like you mentioned Canadian Rockies, Bakken crude to the Midwest, maybe rescoping the Wyoming line?

It just seems like the economic incentive is only going to get greater as we deal with supply-demand imbalances. And it would seem like that would be more in the forefront.

Greg Ebel (Chairman, President, CEO):

Right. Well, definitely the team is working on those. As you know, the challenge -- and I'll call it -- we've had recent oil of $60 but typically in the first quarter closer to $50. Even with the differential, I think that you still have a number of producers, Darren, reeling from uncertainty and some of those projects -- they start to get very sizable from a CapEx perspective, particularly on the twinning side, and would take decade-plus commitment.

And I think producers have just been very hesitant to do that. That being said, I think we continue -- you will see us continue to push enhancement type projects as well as the major projects. I think the issue is not if, it's just when.

So from a timing perspective, obviously if you do a twinning that is much different regulatory implications than if you're just doing enhancements to basically get up to the existing capacity. But we're looking to work with other partners. We are looking to do enhancements and even greenfield, if necessary, to meet the customer needs.

But I think the type of projects you see, like the enhancement where you had 25,000 or 30,000 barrels a day, is much more in line with what producers are willing to sign up today. And every month we see increase in the price of oil, I think those projects coming back fully on the radar screen, and we believe that will definitely allow us to secure those big projects before the end of the decade.

Darren Horowitz (Analyst - Raymond James and Associates):

I appreciate it. Thank you very much.

Operator:

Brandon Blossman with Tudor Pickering Holt.

Brandon Blossman (Analyst - Tudor, Pickering, Holt and Co. Securities):

A couple quick questions, one on the incremental Marcellus to market project that are under development. Can you characterize those as far as supply-push, demand-pull customer-based?

Greg Ebel (Chairman, President, CEO):

Yes. So on the Lebanon project it would be supply-push. Marcellus to market, mostly supply push. And then Philly is likely to be a combination. The Philly area really has a number of customers that are trying to figure out how to get more energy into that area. So I would bet on a fair amount of demand pull there.

Brandon Blossman (Analyst - Tudor, Pickering, Holt and Co. Securities):

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That's helpful, thank you. And then moving to a different part of the continent, Western Canadian propane, less than $0.10 a gallon. Are there any opportunities for near-term incremental infrastructure to relieve that supply problem?

Greg Ebel (Chairman, President, CEO):

Well, I think it's less of a -- no, we have not seen a big desire. Again, in some respects kind of like the oil side, people are waiting to see what the long-term price signals are. So that continues to be a challenge. There is some activity on the rail side, as you probably know.

But you point out a good fact; the [slide share] aren't going down in terms of the volumes of gas. In fact, it's probably surprising to a lot of people. April saw Western Canada produce 15 B's a day, which is the highest production rate in a decade or 8 to 10 years.

So we will look at those. I think again the issue is at those prices, as you can imagine, folks like ourselves -- the margins are extremely small, hence our likelihood of earning more like $30 million in cash as opposed to what we've seen in some of the other years. So opportunity there -- I think the price signals suggest that people probably don't want to commit for those long-term. But again, just like an oil side of the gets a matter of when, not if.

Brandon Blossman (Analyst - Tudor, Pickering, Holt and Co. Securities):

Fair enough, thank you. That's all for me.

Operator:

John Edwards with Credit Suisse.

John Edwards (Analyst - Credit Suisse):

Nice quarter. Greg, could you just talk a little bit further on the Access Northeast? Is there a way you can quantify the competitive advantage you think you might have with Eversource and National Grid, because obviously you have got the competing proposal out there?

Greg Ebel (Chairman, President, CEO):

I'll start and Bill can add to that. I think the number one competitive advantage is the one you just pointed to. With Eversource Energy and Grid, as we have been talking about a little bit on this call, John, is that you know how difficult it is to place assets into service. We take great pride in fact that we have been in those areas for half a century or so.

But the Eversource and Grid folks have been there even longer, and this is a ground game. And being able to understand the needs, how to use existing assets to maximize capabilities and yet minimize new infrastructure is a real advantage to have those folks along.

And of course, we would expect them to help support the pipeline through contracts as well. And ultimately, their needs to be -- beyond the FERC approvals there needs to be state approvals on some of this and they obviously have probably the best insight from that perspective.

So volume in terms of 4.8 million versus 6.5 million, on the ground, existing assets, working as partnership, regulatory, and our ability to put pipes in the ground all add up to, we think, check, check, check from a competitive perspective, our pipeline proposal versus some others.

John Edwards (Analyst - Credit Suisse):

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And also I take it then your thought is there's really going to be one winner here, there's not going to be a second player. It's going to be one or the other, correct?

Greg Ebel (Chairman, President, CEO):

Here's how I would answer the question. When Access Northeast is built it will not be the end of needs in New England. Over time, with the projects we are building, AIM and Atlantic Bridge project, we're not even touching the electric market. Access is the first one we are touching in the electric market.

And over the last winter, it has probably cost consumers up there [during last] two winters, $2 billion plus in costs. And Access Northeast is not going to relieve all that. So, there will be a need for additional project. I guess I would put it this way. Access Northeast will be the first of all I would expect to be many continuing infrastructure needs on the gas side in New England.

John Edwards (Analyst - Credit Suisse):

Okay, that's really helpful. That's all I had, thanks.

Operator:

Carl Kirst with BMO Capital Markets.

Carl Kirst (Analyst - BMO Capital Markets):

Maybe will continue flogging the Access Northeast object once more. Greg, to your comment of expecting to put this into execution later this year, is the gating item here, just having the NESCOE process run its course? And if that's the case, is there any insight as to when you think that happens?

Greg Ebel (Chairman, President, CEO):

Yes. I don't think it's necessarily and NESCOE as opposed to making sure that we're on the same page, that whatever regulatory approval for contracts and rates actually make very good progress and get done. So, I think that the state approvals of rate structure is probably a bigger issue than NESCOE.

Bill Yardley (President - U.S. Transmission):

This is Bill. You've got to figure this is a solution that's designed specifically to fit what NESCOE was contemplating as they went through the winter. And when you look at that and think about what we are trying to do here is trying to get all the states, which frankly are lined up pretty well right now from a cooperative standpoint, to make sure that they have got the right mechanisms in place to approve contracts that are signed by electric distribution companies.

And within the six New England states, Greg hit it on the nose. You've got, between Eversource Energy and National Grid, between two-thirds and 100% of the electric customers in four of those six states saying they want Access Northeast. So this process, I think -- I'm very confident we are going to be getting into service or rather into execution later this year.

Carl Kirst (Analyst - BMO Capital Markets):

Does that require legislation as far as to meet that service date, call it, by the end of this year? Or do you see some the momentum of that building sooner rather than later?

Bill Yardley (President - U.S. Transmission):

I would say sooner rather than later. I think it's a mixed bag in New England. You got some states that I think are fairly sure they can make those approvals now. You got other states that are saying, okay, how

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do we work towards getting that together? You know the process in Maine has been through an energy cost reduction plan.

Still, other states will have yet other mechanisms, perhaps one requiring legislation. But I think the good news is, when the governors met last month there was a pretty good agreement that this is the direction we want to head and let's work to get this done as soon as we can.

Carl Kirst (Analyst - BMO Capital Markets):

Excellent, I appreciate the color. And maybe one final question, Greg. Given your prior sphere of Canadian politics, I'm just curious -- NDP win yesterday in Alberta, does that change anything for you all as you are looking at Western Canada with some of the challenges that may come because of it?

Greg Ebel (Chairman, President, CEO):

Well, as you know, most of our business in Western Canada is in British Columbia. So advantage British Columbia, should the government -- let's give them time to see what they will do -- do things that hurt production in Alberta. We have very little activity in Alberta. As you know, we have a little bit of oil income in Alberta, but most of it is actually on the U.S. side of the border.

So, I think those companies whose sphere of activity is solely Alberta, I think they may find some challenges if just from the chill effect of a change that hasn't occurred for at least four decades is just going to make people quite cautious. So we will have to see what happens.

Now, that being said, parts of Western Canada have seen socialist leaning governments in the past and done okay. So let's give them time to figure it all out. Meanwhile, full steam ahead in British Columbia, as you have seen with Jackfish and RAM and the open season that we announced today to make sure that we can move gas that our customers want to move it in places like the Montney to markets that need it elsewhere.

Carl Kirst (Analyst - BMO Capital Markets):

Great, appreciate the color.

Operator:

Becca Followill with U.S. Capital Advisors.

Becca Followill (Analyst - U.S. Capital Advisors):

Touching on DCP Midstream and the restructuring process, I think a lot of us thought that this would have been reconciled maybe a little bit earlier. Can you talk to maybe where some of the sticking points are in the items and the items, three items, that you outlined that you want to get out of this process? Are those consistent with what your partner wants to get out of this?

Greg Ebel (Chairman, President, CEO):

Well, on your last thought, absolutely. I think there's absolutely no daylight between Greg and Greg, and Pat and Greg, and I think you heard that from them last week on their call. I don't think this is a timing that's any different than what we laid out. I think he said sometime between April and October. And I would say a lot of really good progress during the quarter to deal with risk factors that the business is taking.

They completed or launched and largely completed already some cost control measures that will bring in reduced cost, call it $70 million in 2016, got the revolver set up to provide flexibility and time on the

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structuring. They have done activity on the risk management side vis-a-vis hedging to third parties. And yet that financial [expedition in a low mark].

So I think we are bang on. I don't think those objectives have changed. I don't think there's any sticking points. It's obviously a major entity which we both like and we want to make sure that whatever structuring we do we get it right, Becca. So, stay tuned and I feel very confident that April to October time frame will definitely happen.

Becca Followill (Analyst - U.S. Capital Advisors):

Great, thank you. That's all I had.

Operator:

There are no further questions at this time. I will turn the call back over to Julie Dill for closing remarks.

Julie Dill (CCO):

Thank you, Heather. And thanks, everyone, for joining us today. As always, feel free to give Roni Cappadonna or me a call with any additional questions. And we will be looking forward to seeing many of you over the next couple of weeks at the AGA Financial Forum and the NAPTP conferences. Have a great day. Thanks.

Operator:

This concludes today's conference call

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