Client Id: 77

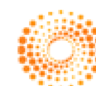
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DCP - Q2 2019 DCP Midstream LP Earnings Call

EVENT DATE/TIME: AUGUST 07, 2019 / 3:00PM GMT

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Client Id: 77

CORPORATE PARTICIPANTS

Sarah Sandberg

Sean P. O'Brien *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

Wouter van Kempen

CONFERENCE CALL PARTICIPANTS

David Meagher Amoss *Heikkinen Energy Advisors, LLC - Research Analyst*

Dennis Paul Coleman *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Gabriel Philip Moreen *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

James Eugene Carreker *U.S. Capital Advisors LLC, Research Division - Executive Director*

Michael Jacob Blum *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Selman Akyol *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research*

Shneur Z. Gershuni *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Spiro Michael Dounis *Crédit Suisse AG, Research Division - Director*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2019 DCP Midstream Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference Sarah Sandberg, Senior Director of Investor Relations. You may begin.

Sarah Sandberg

Thank you, Eugene. Good morning everyone and welcome to the DCP Midstream second quarter 2019 earnings call.

Today's call is being webcast and the supporting slides can be accessed under the Investors section of our website at dcpmidstream.com.

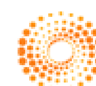
Before we begin, I'd like to point out that our discussion today includes forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements. And for a complete listing of the risk factors, please refer to the partnership's latest SEC filings. We will also use various non-GAAP measures, which are reconciled to the nearest GAAP measure in schedules in the appendix of the slides. Wouter van Kempen, CEO; and Sean O'Brien, CFO will be our speakers today. And after their remarks, we will take your questions.

With that, I'll turn the call over to Wouter.

Wouter van Kempen

Thank you, Sarah. Good morning, everyone. We appreciate you joining us. On today's call we will discuss our second quarter results, announce and highlight our growth projects and provide an outlook into the second half of 2019.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Our team continued the excellent momentum of Q1, resulting in a strong first half of the year and solid progress toward our financial targets. In Q2, we achieved adjusted EBITDA of $278 million and DCF $173 million, representing a respective 12% and 18% year-to-date growth compared to 2018.

Our distribution coverage is 1.12x for quarter and 1.28x year-to-date. We have ample liquidity and financial flexibility and our bank leverage ratio is 3.7x as of June 30th, demonstrating strength of our balance sheet.

Our earnings are underpinned by effective execution of our capital allocation strategy and our operational optimization efforts, resulting in strong volumes, including double digit year-over-year volume growth in DJ Basin and on Southern Hills and Sand Hills.

We're excited to highlight several capital growth projects. First, last week we were happy to announce that we executed a very capital efficient and accretive long term offload agreement into DJ Basin with Western Midstream Partners which will provide up to 225 million cubic feet per day of incremental processing capacity for our producer customers.

Second, we're increasing our NGL takeaway capacity on Southern Hills with a 40,000 barrel per day expansion, bringing our total capacity up to 230,000 barrels per day. And third, as of last night, our O'Connor 2 plant is now in service, increasing our total processing and bypass capacity to over 1.3 Bcf per day into DJ Basin.

At the same time, we maintain our focus on effectively managing risk in both the short and long term. We significantly reduced our commodity sensitivity through a multiyear approach to become a fully integrated midstream service provider with a 50/50 balance between our fee-based Logistics & Marketing segment and our G&P segment.

We negotiated strong contracts within our G&P footprint, including minimum volume and margin commitments and we have navigated basin bottlenecks and infrastructure constraints by leveraging strong partnerships to seize commercial opportunities and move molecules.

In all, we continued to make great progress on our DCP 2020 vision to become the safest, most reliable, low cost midstream service provider, sustainable in any environment.

Slide 5, details the recently executed long term offload agreement that will provide DCP with up to 225 million cubic feet per day of incremental processing capacity at Western's DJ Basin gas processing complex by the middle of 2020.

As we continue to optimize our capital spending, this agreement offers a highly accretive solution at an attractive multiple, and we believe it's a win-win for all stakeholders in the DJ.

This incremental capacity is the fastest solution to meet our processing commitment to our customers. And this agreement is a tremendous strategic outcome for DCP for 3 critical reasons.

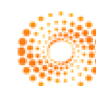
One, we're delivering on the promise of future cash flows, while eliminating the need to spend capital on new processing capacity at the proposed Bighorn facility. This in turn allows us to significantly reduce our 2020 growth capital by utilizing this third party infrastructure.

Two, we will continue to control the NGL barrels, allowing us to capitalize on full value chain economics via connections to our DJ Southern Hills extension, Front Range and the Cheyenne Connector for residue gas and ultimately the Sweeny Fractionators on the Gulf Coast.

And lastly, with permits and land already secured, we've preserved the optionality to build future capacity via the Bighorn facility if customer demand requires it. As with the majority of our DJ Basin assets, these incremental capacity is supported by very strong producer partnerships and life of lease acreage dedications and we maintain strong processing margins via our existing contracts.

Coupled with the O'Connor 2 facility, we are providing our customers with over half a Bcf of new capacity into DJ by the middle of next year.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Additionally, over the past several years, we've added multiple smaller bypass and offload capacity additions into DJ Basin. And these additions have now totaled a meaningful sum. And together with the addition of the O'Connor 2 bypass and our newly announced offload, our total available DJ Basin capacity will be almost 1.7 Bcf per day by the middle of 2020.

Moving to the next slide, you can see as we continue to successfully execute a capital allocation strategy that integrates and balances our portfolio to drive increased future cash flows.

With our slate of great projects coming on line in the second half of this year, the majority of our growth capital spend was waged in the first half of 2019 as we invested in Gulf Coast Express and the O'Connor 2 facility. With that in mind, we remain comfortable with our growth capital guidance range for 2019.

Now let me quickly highlight some project update since our last call. In the Permian, the Gulf Coast Express Pipeline is expected to come on line slightly ahead of schedule with an anticipated in-service date at the end of September. In the DJ, we're excited to announce the increasing the NGL takeaway capacity on Southern Hills by approximately 20% or 40,000 barrels per day by the end of 2020 at a very attractive multiple.

Through the addition of incremental pump stations, this expansion is underpinned by future volume growth and the added capacity from the DJ Southern Hills extension which remains on track to be in service in Q4 of 2019.

The Front Range and Texas express pipeline expansions are underway and are now expected to be in service in Q4 of this year. And lastly, the 600 million a day Cheyenne Connector is awaiting further approval and is not targeting a Q1 2020 in-service date.

Put all this together, and you will see that we are unparalleled in our commitment to our DJ Basin customers. We have reliable access to the full value chain of midstream services and are the sole midstream company supporting all 3 major downstream expansions from a capital, a commitment and an ownership perspective.

Looking at our overall portfolio growth, the vast majority of our investments are focused on fee-based logistics assets and combined with our existing premier footprint, we are well positioned to achieve our long term strategic goals, while also solving for needed capacity additions in these top tier regions.

Now I'll turn it over to Sean to take you through our financials.

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

Thanks Wouter, and good morning. Looking to Slide 7 on the heels of record earnings in Q1, we continue to make solid progress on our financial goals, while we work to effectively manage the business through a dynamic pricing environment.

We achieved Q2 adjusted EBITDA of $278 million and DCF of $173 million, resulting in a distribution coverage of 1.12x. Our Logistics segment continues to produce excellent results, with margins up $45 million over last year, driven by growth from our Sand Hills, Southern Hills and Guadalupe assets. And I'll remind you that Guadalupe acts as a natural hedge, more than offsetting the adverse impact from low Permian gas prices.

On the G&P side, earnings were down $7 million, driven by a decrease in Midcontinent margin and volume opportunities we saw in Q2 2018, partially offset by growth in the North. Overall, costs were down $5 million, prior to a $9 million non-recurring charge relating to the voluntary separation program or VSP, focused on accelerating our DCP 2.0 transformation. This VSP will drive full year cost efficiencies in 2020 forward.

Year-over-year lower commodity price impact was unfavorable by $27 million net of hedges. This is primarily due to NGL and crude price declines of 33% and 12% respectively over the same period of time. Despite these commodity price challenges, our cash flows increased year-over-year as our diversified portfolio continues to deliver solid earnings.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Now on Slide 8, I want to elaborate on our earnings outlook for the remainder of 2019 and highlight some of the key drivers carrying us into 2020. Following a strong first half of the year, we anticipate commodity headwinds and select takeaway constraints to impact the remainder of 2019.

Partially offsetting these headwinds are incremental cash flows from our predominantly fee-based growth projects coming online throughout the second half of the year. And coupled with our strong year-to-date coverage, we reaffirm our 2019 guidance ranges.

Specific to Q3, we expect commodity prices to dampen sequentially and then rebound modestly in Q4 with the forward curve indicating lower expected prices than what was realized in the first half of the year.

Cost will be higher in Q3 compared to the second quarter, due to increased plant reliability spend. G&P cash flows will benefit modestly as O'Connor 2 volumes gradually ramp up throughout the third quarter, yet will be partially dampened as volumes are temporarily constrained by delayed NGL and gas residue takeaway projects, including the Front Range, Texas Express and Cheyenne Connector.

Moving to Q4, Gulf Coast Express in the Permian will deliver a full quarter of cash flows. In the DJ, both the Front Range expansion and the Southern Hills extension will be coming online, providing needed NGL takeaway capacity and driving incremental margin growth. However, we still anticipate potential residue gas takeaway capacity limitations until the Cheyenne Connector project is placed into service in Q1 of next year.

Now looking into 2020, we will benefit from our full year of earnings from Gulf Coast Express, O'Connor 2 and the DJ Southern Hills extension and a full year of labor savings from the VSP. Additionally, with the Cheyenne Connector and the new DJ Basin offload coming into service in the first half of the year, the DJ Basins' constraints will effectively be eliminated.

Finally, in the latter part of 2020, we will enhance our fully integrated value chain as the Southern Hills expansion and the Sweeny Fractionators go into service in Q4. As mentioned, all of this builds to reaffirm our 2019 guidance range based on our solid earnings outlook in any environment.

Moving to Slide 9, I'll summarize the continued strength of our financial position and our effective approach to risk management. With $1.4 billion available on our bank facility, we have ample financial flexibility and liquidity.

We're delivering on our commitment to self-fund our growth through strong year-to-date DCF, proactive debt capital market execution and cash flows from non-core asset divestitures, including over $100 million of asset sales year-to-date. On the risk management side of the equation in 2019, our margin is 77% percent fee-based or hedged.

To close, we're continuing our track record of maintaining strong balance sheet, mitigating risk and meeting our financial commitments.

And with that, I'll hand it back over to Wouter.

Wouter van Kempen

Thanks, Sean. In summary, on Slide 10, our execution continues to drive solid results and a good outlook for the second half of 2019 and beyond.

Our team delivered year-to-date distribution coverage of 1.28x, driven by growing volumes in our Logistics segment, margin opportunities on Guadalupe and growth in key areas within the G&P segment.

We are effectively managing commodity price volatility through our multi-year approach to diversifying our portfolio and focusing the vast majority of our investments on fee-based logistics assets. This is exemplified by our 12% growth in year-to-date adjusted EBITDA compared to 2018, despite an almost 25% decline in NGL prices over the same period.

Finally, our capital efficient -- our efficient capital allocation strategy points to a bright future of solid cash flows and increased unitholder value, as we extend our integrated value chain throughout every segment of our business. With these themes in mind, we've laid an excellent foundation for the rest of this year, 2020 and beyond.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

I look forward to taking your questions now and Gigi, please kick us off.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Shneur Gershuni from UBS.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

I was wondering if we can start off with the agreement that you signed with Western Gas. I very much appreciate the capital efficiency benefit of not spending capital. I just wanted to understand, or is there a revenue sharing agreement with Western Gas, whereas you're effectively subletting their plant and you're still earning some of the revenue that you would have had from Bighorn, but you don't have to spend any capital to actually earn that? I just kind of wanted to understand that.

And then if you can also talk about, if I remember correctly, Bighorn was supposed to be a POP contract, Western plant is not, is it still POP? I'm just wondering if you can walk through the mechanics of that for us.

Wouter van Kempen

Okay. Yes, Shneur, look, me -- let me take that for you. I think the way you should look at this is -- and let me take a couple of different things here. This is a 7-year agreement for 225 million a day of capacity. About 75% of that is covered on an MVC, and the remaining piece of that is -- if we needed, it's available to us.

The way you should look at how we kind of earn a margin on that, and how in the end WES earns some margin on that as well is we pay WES a fixed fee per annum. We will continue to have our POP contracts, which are deep in the money POP contracts with our producer customers in the DJ Basin. So our producers -- we charge our producers a POP fee. That fee, even if current rates is above what we would say WES in fees, so we will make a spread of the 2 of those.

The other piece that we're continuing to get, which I think is really, really attractive for us, is we continue to have access to all of the downstream economics as well. So the NGLs that are coming out of this plant, out of this -- the offload agreement will go into the Southern Hills extension into the DJ Basin. That's why we're doing during the Southern Hills extension.

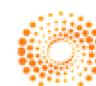
So we will get transportation revenue on those, and we will be able to push that through, for instance, the Sweeny Fractionators that we expect to take an interest in later in 2020, and we'll earn a fee on that.

We also control the residue gas. And when Cheyenne Connector gets approved by FERC and comes online, the gas will find its way into the Cheyenne Connector and we will get a transportation fee on that. So, overall, it is very, very accretive to us.

If you go into kind of the Appendix, you will see that we will spend about $125 million of capital in field infrastructure to make sure that we can get the gas to Latham some plant complex and -- but we're not spending the additional couple of $100 million that we would spend for the Bighorn facility.

And so it is very, very capital efficient for us. If you think about what we spent on O'Connor 2, Mewbourn, Mewbourn 3 kind of plant programs like that, you are probably saving about a $0.25 billion here overall. So very, very attractive for us, it reduces our 2020 growth capital very significantly.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

We continue to preserve the Bighorn option. And people have asked and say, "Hey, how close were you on Bighorn?" We were very, very close on Bighorn. Bighorn literally was at the [lip at cup] and we were very close on executing that until we started to having these discussions with Anadarko, WES around this capacity being available.

And in the end, for us, we want to always make sure that you don't overbuild a basin. Between WES and ourselves, we are by far the 2 largest processors in the basin and that was a great opportunity to not only create a win-win for the 2 of us, but I look at this as a win-win-win for our ourselves, for our unitholders, for WES filling up capacity that was otherwise going to be excess capacity for them, and then for our producer customers, which is really important. This is the fastest way for us to get additional capital or processing capacity online. So I think that answers all of your questions, I hope. Does it, Shneur?

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

No, it did. And I would just -- and thank you for confirming that you're basically still earning a return, get the downstream benefits and basically without spending all the money.

Wouter van Kempen

Yes, and I think if you look -- and from a return point of view, sort of $125 million and like, we tend to always say we do 5x to 7x type of multiples. This would probably be closer to 5x than 7x. So it's pretty attractive for us.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Or even lower. Okay, and then just wondering if we can talk about DCP 2.0 for 2020? You talked -- I think, Sean, you talked about VSPs in terms of some cost efficiencies and so forth. I mean, are there targets that you shared with the Board in terms of how much you expect cost to actually come down further? And I recognize that you guys have already made a ton of progress.

And then as part of that sharing of targets, you've been very successful this year in synthetically adding capacity through efficiencies. Are there more opportunities to do that? And is there a target you can share with us as well on that side too?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

So -- hey, Shneur it's Sean. I can start on the cost side of the equation. I'll just remind everyone that 2.0 efforts has done some really good things around the margin side with the ICC, and with some of the things we've been able to do on the pipelines.

It has shifted significantly, I think, you're picking up on it right, in 2019 to be more -- to also drive cost efficiencies. There are definitely targets. Wouter has set significant targets around the team. They're broad, but they are efficiency-based. I can share a few numbers with you. And I talked about that VSP, the voluntary separation program. That was a way to sort of accelerate some of the things we're doing.

But think about it this way, we are already -- if I think about where we came into the year versus where we are right now, the company is about 15% lower on headcount. So that's pretty substantial improvement. That is, I would tell you, in line with the goals that Wouter and the Board set for the company.

In terms of longer term, our goal would be to get to around that 30% number -- reduction by the end of 2020. So those are some targets specific to the goals, and they're pretty substantial. We're doing that through adding digitization, automating things, changing our processes, remotely operating assets. I'm just giving you some of the drivers. But all those things -- the corporate functions are in the mix considerably.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

I think, when you were here a while ago, we focused on mostly the operations. But things are progressing well. You saw -- I think you're seeing some good cost trends. As I mentioned, that one-time charge will not reoccur as we go through the year. And we're excited that the benefits continue to grow through the remainder of this year and into next year.

In terms of asset consolidations, it's something we always look at. I don't know if you noticed, I mentioned $100 million of year-to-date sales. That was -- obviously, we talked about the propane business. We did a small divestiture in Q2 of around $10 million, but these are things that continue to help the portfolio, reduce our costs. By the way, I'm sure I'm going to get questions on maintenance capital. But as we divest these assets, our maintenance capital continues to go down. These are usually less efficient, non-core assets and that will help us on the maintenance capital side as well.

Operator

Our next question is from Spiro Dounis from Credit Suisse.

Spiro Michael Dounis - *Crédit Suisse AG, Research Division - Director*

I guess, I'll take the bait on IDR then, since Shneur segued me right into it. So one of your 2 sponsors recently removed them, of course, and I think they implied multiple around that was 16x. Just curious what your reaction was to that deal? Maybe how you think about the process from here, and then anything we should read into the timing?

Wouter van Kempen

Yes, so, Spiro, obviously, I'm not a Phillips employee, I'm not a PSXP employee, so I have no insights in how they kind of look at their transaction. So I'm not going to comment on their transaction. I think our message continues to be the same message. This is not going to be a question of -- if it's going to happen, it's going to be finding the absolute optimal timing for us to do this. So, I think the great thing for everybody is that if you think about Enbridge, you think about Phillips, they clearly are very comfortable with doing something and removing IDRs, because they've both done it. So I think that, that should give you a little bit of insight about, "Hey, how are we talking about this and what are we thinking about this".

For us, it's all about making sure that we have the right coverage, and so that we can withstand a down cycle. And one can argue that the way things are going right now we're in a little bit of a down cycle, and we continued to have a close to 1.3x type of coverage here for the first 6 months of the year. So, we continue to have really good discussions around this and it continues to be -- it's a matter of when this is going to happen. It's not a matter of, if this is going to happen. So, stay tuned.

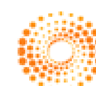
Spiro Michael Dounis - *Crédit Suisse AG, Research Division - Director*

And just thinking about new growth opportunities and capital efficiency, so I guess Phillips has been spending considerably on midstream. And I guess they are the precedent here for some of those assets to make their way to you via the Sweeny Frac. I'm sure some of those will also make their way to PSXP. But just curious out of some of the new projects that they've laid out, if you think there's another opportunity for you guys to maybe comment on some of those and take options?

Wouter van Kempen

Yes. I think we have been very, very synergistic in how we went to market together with Phillips 66. And I think there's a great benefit for this entity if we find commercial opportunities that we can do together and that doesn't have to be just with Phillips 66, unlike. If we can find a great opportunity to do what Enbridge, we would love to do that as well. But if there's an opportunity for us to continue to direct barrels towards the Sweeny Frac and take an ownership interest in Frac 4, we're very, very open to do that. If there's some opportunity to go even further down value chain with them, I think we're very open to do that. We have discussions around this a lot of different times.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

And part of this is and you got to look at some of the bigger picture and what we're doing here, why did we do, for instance, the Southern Hills extension into the DJ Basin. That was to make sure that we have flexibility and control of all the barrels that we continued to produce and add in the DJ Basin. And that gives us flexibility to move them in pipelines that we own 100% to direct those barrels to fractionators that we think are very attractive in our portfolio, where we potentially can take an ownership interest. And that's what you kind of see here also with the Southern Hills expansion that we're doing. And that is really all about the growth that we have into DJ and gives us the flexibility to work those barrels and potentially leverage those barrels into more downstream investments.

Operator

Our next question is from Jeremy Tonet from JP Morgan.

Unidentified Analyst

This is [Charlie] in for Jeremy here. I just wondering if you could talk a bit about Midcon volumes kind of dropping a bit sequentially, just any commentary from producer activities and kind of expectations for the balance of second half '19?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

Yes, Charlie, couple things. The volumes are definitely down. I've mentioned it in my remarks. And also the margins -- the average margins were down, because we're settling more of the product this year in Conway. We were able to get more of that to Bellevue last year, you get higher netbacks. We do see that easing up as some of the capacity and some of the infrastructure we're talking about comes online.

In terms of about looking forward, the Midcon is an area that we continue to see volumes in that decline. It is in line with the guidance that I gave at the beginning of the year, so there's no surprises going on that we weren't surprised in any way. We continue to see those volumes probably decline. There's some infrastructure in some of the areas we're in SCOOP/STACK. But in lot of the other areas, we're into a base decline type environment.

On the positive side, I can tell you, and more to come throughout the remainder of the year. It is an area that we continue to focus on consolidating assets, getting more efficient, shedding infrastructure where we're not -- where volumes are declining, and we've had some really good progress. And hopefully, we'll be able to share more of that on the second half of the year. I think there's some exciting stuff. Basically, that's just cutting our costs, lowering our maintenance capital and our proactive way to kind of be very efficient. So you'll continue to expect to see volume declines there. That was the guidance I gave early on year and we're trending as along those lines.

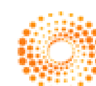
Unidentified Analyst

One more for me. Could you comment on some of the producer consolidation we've seen in news, specifically in the DJ? Maybe -- if at all, how that might impact your growth outlook?

Wouter van Kempen

Yes, I think for us, there was something out yesterday of 2 producers potentially combining. I can't comment on that. As, I think in the end, the acreage that we have here in the DJ basis continues to be tremendously good acreage. It's all under life of lease. So in the end, a transaction doesn't switch what that acreage -- where it would go to. So if companies combine, it will continue to go to DCP. And so, overall, I think more consolidation, it's probably a theme that starts to make sense. At the same time, when people consolidate, normally, they tend to drill the acreage, very few companies go and consolidate and try to add additional acreage and then just put it in inventory and do nothing with it. So I think for us it's -- it continues to be a pretty good outlook here in the DJ Basin.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Operator

Our next question is from Gabe Moreen from Mizuho.

Gabriel Philip Moreen - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

I just have question in terms of outlook on Guadalupe. Now that you see access set here to come on. Is it your plan there to essentially leave that pipe open as far as volumes and marketing around it or any long term contracts that you may be putting in there? And, I guess, is your expectation over the medium term as GCX fills up, the basis may blow out again and when that may happen?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

Hey, Gabe, Sean, couple of things. Guad had a record quarter in Q2, obviously you tied to the White basis spreads. Our strategy on Guad is still -- it's been the same, obviously it's been a little more exaggerated recently. But we typically hedge it out into the future -- a portion of it -- leave a portion of it open.

I think you've alluded to some longer term agreements. I know the marketing teams been working on that. We really like those. Those are more annuities, right? You lock in sort of physical for a duration and you lock in those cash flows and I think they've worked on a couple of deals along those lines.

In terms of the outlook for Guadalupe second half of the year, we do see the first half as being stronger than the second half, that's driven by the comments you just made with GCX coming online. We see Guad -- our earnings on that open position kind of diminishing little in Q4, and maybe even a little in Q3.

On the positive side, you got to think about it holistically. You've got GCX then coming online. So that's the -- we're going to start driving earnings on that pipeline. And what we've started to see in a very small way is the gas prices that we settle in the Permian start to increase.

So if you think about the second half of the year, the net-net of all 3 of those things is favorable to the company. However, I think your point is Guad probably diminishes a little second half of the year on earnings and that is true.

Wouter van Kempen

And maybe to add, Gabe, to what Sean said, the marketing team has absolutely executed on a number of longer term multi-year deals at pretty attractive prices. They may not have been as attractive and as high as some of the massive blowouts that we saw in basis spreads here in the second quarter. But they are very attractive prices that we've locked in for a number of years. So that's kind of going to Sean's point of creating an annuity out of it and I think that's a very good thing.

At the same time, there's -- I think everybody agrees there's more pipelines that are needed other than GCX coming out of the Permian. So I wouldn't be surprised that somewhere in 2020 we see basis start to opening up again and then we will be able to take advantage of that.

Gabriel Philip Moreen - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

And then as a follow up and sort of speaking of hedging. Your approach to hedging NGLs right now given spot volumes, you've talked about a little bit of forward curve improving a little bit, but to what extent do you want to let things kind of see if they will improve versus unlocking pricing right now for 2020.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

Yes, so I think on the positive side, we're actually little more hedged in Q2 -- or I'm sorry in the second half of the year than we were in the first half of the year. As we have not put any NGL hedges on for 2020. Gabe, that's probably what you are alluding to in the environment which hasn't been conducive to it. We do have a multi-year hedging program. We focus on that. We'll look for opportunities.

We do see the forwards telling us the things. We actually saw July get a little bit stronger than June. So at least you're starting to see a little bit of movement to the positive, and then the forwards telling us Q4 gets stronger. And then with some of the infrastructure coming online later this year, next year, there's a lot of individuals and analysts that believe that 2020 will strengthen.

To the point of hedging, we will look for opportunities. We're always very proactive. And try and get some 2020 hedges on when and if those prices come back.

The other thing I do want you to focus on as well, though, we got the 65% fee-based this year on our core assets, that's up --as you know, that's up massively from where the company was just 3, 4, 5 years ago and we're not given 2020 guidance yet, but that will grow. If you think about all the projects that Wouter highlighted that are coming online later this year and next year, the fee-based portion of this business will continue to grow.

And think about a Q2 where commodity was down, I think, Wouter in his remarks said, "Hey, NGL was down 25% versus last year and we grew the company pretty substantially". So, I think, we have a good strategy in place. As it were pertains to hedging, we will continue to look proactively for opportunities to put NGL hedges on and I'm hopeful those will come through the remainder of this year.

Operator

Our next question is from the Dennis Coleman from Bank of America Merrill Lynch.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Most of mine have been asked, but a couple of detailed ones for me if you would. It seems like there's some drift on the Texas Express, Front Range projects into the fourth quarter. Anything to read into that matching customer flows or just that sort of normal delays, any commentary there?

Wouter van Kempen

Yes. So that's a -- it's a third party managed project, so we're an equity owner in the project. We're not executing the pump stations that need to be set. But what basically happened there, there were some regulatory delays in one of -- one specific county here in Colorado. Those have been solved now. And -- but that probably took a number of weeks to kind of get things done couple of months. And that made the project basically slip from Q3 into Q4.

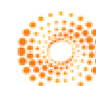
Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

And then another more detailed one on Southern Hills additional 40,000. Is that -- we should assume that's contracted and is there any kind of terms that you might talk about, if it is?

Wouter van Kempen

Yes, So think about that really driven by a number of different kind of projects that we already spoke about. So the O'Connor 2 plant is now online in service as of today, which is great for our customers. We're very excited about that. That's 200 million a day of capacity, so let's call that 20,000 barrels right there. Those will flow into that Southern Hills extension.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Think about the offload agreement that we spoke about. That's 225 million a day, that's another 20,000-25000 barrels a day. So just between the 2 of those, that it gives you 40,000 plus barrels a day, which kind of mimics the expansion that we're doing here.

And if you're looking in the details that we provided, Southern Hills today runs at 88%-90% capacity, so we're very kind of close to filling that Southern Hills pipeline up. That's why we're doing this project and this is one of those projects that you should think about what we did with Sand Hills.

The first sand Hills expansion was highly, highly accretive. Why? Because it's just setting pump stations. It's the same over here. We're not adding pipe. We're just adding 2 pump stations. So that creates those 40,000 barrels a day. And you should look at that project as probably a 2x-3x type of multiple. We always talk about -- whenever you can set pump stations on a pipe, then you have the volumes. Those are great projects because they're highly accretive.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Any permitting issues there that just watch items?

Wouter van Kempen

No, we don't expect any permitting issues happening there. So the pump stations will set in the Midcontinent. So -- and we are very, very comfortable on this. The lead-time and one can say, "Hey, its 2 pump stations, why for 4Q 2020?" A, we think that's we need it, but secondarily pump stations have a pretty long lead-time. So just the leads sort of pumps are probably 10-12 months, so that's why this will take a little bit of time.

Operator

Our next question comes Michael Blum from Wells Fargo.

Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

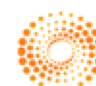
Just a quick question from me. So I realize you're not giving any kind of 2020 specific guidance here. But it does sound like you've, obviously, with the Western deal you've done some capital avoidance. Can you just give us at least directionally a sense of what -- where CapEx you think will trend in 2020, just kind of directionally?

Wouter van Kempen

So -- yes. Michael, Wouter here. So we have given guidance around a variety of projects that we've done, okay. So one of the bigger projects for 2020 is going to -- is the option that taking 30% ownership interest in the Sweeny Fractionators and we've disclosed how much that is, so assume that we're going to execute that one. The other project, the Cheyenne Connector, we're continuing to wait FERC approval, so that one is slipping into next year. We hope Q1 2020 we have an ownership option that we expect to exercise on that. And then think about part of the capital that we need to shut the field infrastructure for the offloads to Western, part of that will be spent in 2019, part of that will be spent in 2020.

So you take all of those together, I think you can get a pretty good kind of idea of what we're looking at for next year, which is very significantly below what we're doing this year. So it gets us really close -- very close, if not completely there from a self-funding point of view, which is very important to us.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Operator

Our next question is from David Amoss from Heikkinen Energy.

David Meagher Amoss - *Heikkinen Energy Advisors, LLC - Research Analyst*

Just wanted to -- thinking about the agreement that you have with Western that you put into place and $125 million you're spending on access to that plant. Is there the potential that you can do other things that can benefit from that capital spend? Anything you can give us in terms of the potential of the geography that you'll be providing yourself access to?

Wouter van Kempen

Yes, I'm trying to understand -- let me try to say something and hopefully I'll take it in the right direction. In the end for us to make sure that we get kind of our gas to our various processing plants that we have in the DJ Basin, you've got to put money in for field infrastructure. So that's kind of what we're doing here for this 225 million a day.

We obviously, the way our system is set up, think about a variety of projects that we have done over the years where we create great connectivity between plants. So the Latham plant is actually right next door to some other plants that we have. So in the future -- after 7 years, for instance, that field infrastructure that we've put in place can be easily directed to our own infrastructure if we need it.

So I think that's how you should think about how we set up the system. We always try to set up the system in a very flexible way, so we can get the volumes not just to one plant, but get them to that super system of different plants. So I think that's how you should look at this.

David Meagher Amoss - *Heikkinen Energy Advisors, LLC - Research Analyst*

Just thinking about you guys kind of pointing to a 5x multiple on that project. Just wanted to confirm that that's just on the processing capacity, it doesn't include the potential that you can make money downstream as well? And then is it fair that we assume that that's based on strip pricing at this point?

Wouter van Kempen

Yes. So that 5x is on kind of full value chain economics, the way we kind of look at it. And then, yes, what we look at is kind of current strip pricing. So we are not looking at some crazy -- crazy numbers in the future.

Operator

Our next question is from Selman Akyol from Stifel.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research*

Our question was asked.

Operator

Our next question is from Jeremy Tonet from JP Morgan.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Unidentified Analyst

With regards to the DJ and egress, especially on the nat gas side, I was just wondering, in event of Cheyenne coming online, are there other kind of initiatives to get the gas out of the basin? Do you see any other kind of bottlenecks there and just for the basin as a whole on NGL, crude oil side? How tight do you think things can get before new capacity comes online, and is there enough takeaway capacity, in general, coming on the line out of the DJ right now?

Wouter van Kempen

So right now, especially -- right now the things are tight, okay. So -- and we spoke about this on prior earnings calls multiple times, that this is not just about putting new processing capacity in place. It's -- you've got to make sure that you can get the NGLs out of the basin, you can get the residue gas out of the basin and then you can get into fractionators at the Gulf Coast.

And that's why I continue to say, and I mentioned this in my prepared remarks. that we are only midstream company that is supporting all 3 major downstream expansions, not only by putting capital in, but we're taking commitments, we're putting ownership percentages in.

So if you think about that from an NGL point of view, between Front Range, Texas Express and the DJ Southern Hills expansion and extension and not only expansion on Southern Hills, we are very comfortable for quite some time here for years to come around, "Hey, do we have enough NGL takeaway out of the basin?"

From a residue point of view, that's really where the tightness is sitting. That's why we went out with multiple companies to build the Cheyenne Connector. The Cheyenne Connector would give 600 million a day of capacity out of the basin and we need that.

CIG is -- the other main outlet is doing some expansions, which is helpful. But we need much more than that. So we really need FERC to act and hopefully act quickly, so we can get that piece going.

And then I think you were talking from a crude point of view. I think from a crude point of view, things look pretty good right now.

And then lastly, you need fractionation as well. And what we're doing with Phillips 66 at Sweeny and building significant capacity there, if you take all of those together, I think things look very good.

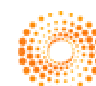
I think for all of you to kind of to think about, "Hey, how do we model this O'Connor 2 plant that is now in service as of today?" We internally model probably about a 100 million a day for the remainder of this year to go through the plant. And that is not because of the fact that the gas is not there. The gas is absolutely there. The NGL takeaway will be there.

We are waiting to make sure that we get enough residue gas takeaway. We need to get the Cheyenne Connector online. Once that Cheyenne Connector is built and online, that will basically completely alleviate any issues that we have in the basin, and hopefully that is happening here pretty soon.

Operator

And our next question is from James Carreker from U.S. Capital Advisors.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

James Eugene Carreker - *U.S. Capital Advisors LLC, Research Division - Executive Director*

Just to follow-up on 2020 CapEx. You mentioned the discrete capital projects and kind of guesstimating from there. I mean, how should we think about the capital for kind of the singles and doubles, the well connects, field infrastructure, things of that nature in 2020 as we're kind of formulating a CapEx number?

Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

This is Sean, James. There's -- as we haven't given 2020 guidance. But as you're trying to think through the next year, I would -- around the singles and doubles, I would not expect a significant deviation from where we have been. Though, with one caveat on the down side -- what I mean downside on the lowering is, we are -- we continue -- we've sold a few things this year. There is capital tied to those projects that we're continuing to look at some small things here and there which will lower. But I would hold serve if you're trying to model going forward until we give guidance next year.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Sarah Sandberg, for closing remarks.

Sarah Sandberg

Thank you for joining us today. If you have any follow up questions, please don't hesitate to give me a call. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.

©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS