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DCP - Q1 2019 DCP Midstream LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the DCP Midstream First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, there will be a question-and-answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Irene Lofland, Vice President of Investor Relations. Ma'am, you may begin.

Irene Lofland - *DCP Midstream, LP - VP of IR*

Thank you. Thanks, Shannon and good morning, everyone. Welcome to the DCP Midstream First Quarter 2019 Earnings Call. Today's call is being webcast and the supporting slides can be accessed under the investor 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 T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you, Irene and good morning, everyone. We appreciate you joining us. On today's call, we will discuss our record first quarter results and provide updates on our capital efficient growth projects, while highlighting the competitive advantage of our diversified business model and transformational journey. The year is off to a tremendous start, with records on all four of our financial targets, including EBITDA, distributable cash flow, coverage and leverage. We achieved outstanding EBITDA of $326 million and DCF of $224 million, resulting in a distribution coverage ratio of 1.45x, while leverage improved to 3.6x.

Based upon our financial performance and a multi-year strategic transformation of our business model, yesterday, we received the [full term] upgrade by Standard & Poor's now putting us just one step away from investment grade. Our performance builds on the momentum from last year's record outcomes as we continue to deliver on our commitments and increase unitholder value. Notably, we lowered our cost by approximately $50 million from the fourth quarter, while ensuring our assets continue to run safely and reliably. We met our goals and cost reduction through innovations that built operational efficiencies and automated processes, allowing for last man hours throughout the workforce.

Additionally, as a result of capital efficient expansions, and operational optimization, we continue to see record volumes underpinning our strong earnings . In our Logistics segment, our NGL pipeline throughput was up approximately 30% year-over-year, as we expand our NGL takeaway capacity, supply and market connectivity across our portfolio.

In Q1, our Sand Hills pipeline capacity increased from 485,000 barrels per day to 0.5 million barrels per day via innovative and immediately accretive capacity expansions requiring no incremental capital. Looking to our G&P volumes. In addition to another record quarter in the DJ Basin, we saw total gas wellhead volumes throughout the regions increase roughly 10% year-over-year. In the DJ Basin, with Colorado's political uncertainty, decisively and significantly minimized, we are progressing well on the construction of our O'Connor 2 facility, and we'll continue to advance plans to add new processing capacity to the DJ Basin in the middle of 2020. Across our footprint and within every function of the organization, we are demonstrating a strong dedication to OpEx and CapEx optimization, financial discipline and creating value for our unitholders while also taking advantage of opportunities to evolve our portfolio and our workforce.

Importantly at DCP, our safety goals are first and foremost above the financial and operational goals, we set for ourselves. And we are proud to share that a few weeks ago, DCP was honored with the most prestigious safety award in our industry. We've been recognized by the GPA Midstream Association as the first place Safety Winner, among the industry's largest midstream companies as an outcome of our exceptional 2018 safety performance. Our results illustrate the success of our team's commitment to building a world-class safety culture and on behalf of our leadership, I want to thank each and every employee for this remarkable outcome.

In all, from record safety metrics and increasing volumes to cost reduction and capital efficiency, our team is successfully driving our company toward our vision of DCP 2020.

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. I'm incredibly proud of our Q1 financial performance, which represents the significant dedication and progress the company is making towards delivering on our financial goals. Our Q1 DCF of $225 million equates to a more than 30% increase from Q1 of 2018, driven by excellent performance from both of our business segments. Fully demonstrating the earnings power of our diversified and fully integrated value chain. Our logistics and marketing business continues to produce substantial earnings with margins up $52 million over last year. Key drivers include an approximate 30% increase in NGL throughput year-over-year driven by a 99% utilization rate and record volumes on Sand Hills.

Additionally, we had outstanding earnings from our Guadalupe asset, which acts as a natural hedge more than offsetting low Permian gas prices. On the G&P side, earnings were up $27 million over last year, driven by strong volumes in the North, South and Permian. As a result of our commitment to improve reliability and efficiency and strong returns from our disciplined capital investments. We continue to enhance our ongoing hedge strategy and we're able to add additional hedges through the quarter for 2019 and 2020, now taking our fee-based and hedged percentage to nearly 80% for 2019. Year-over-year, we saw an increase in cost of about $21 million, due to the addition of new growth assets and investments in reliability and transformation. And as Wouter mentioned, we delivered on our commitment, that cost would trend down from our fourth quarter levels with Q1 cost $50 million lower than Q4 of 2018. In addition, we self-funded the majority of our growth capital in Q1 through strong excess cash flow via our 1.45x coverage ratio and through the sale of our wholesale propane business. In combination, these outcomes generated a $160 million of excess cash flow.

Now moving to Slide 6. I'm going to summarize the growing strength of our financial position, as we continue to successfully execute our strategy and improve our balance sheet. First, I'm extremely proud of the recent upgrade to BB+ we received from S&P this week. This favorable action is the culmination of our dedicated efforts to grow our earnings, through disciplined capital allocation and focus on transforming the company to a fully integrated, fee-based industry leader. With about $1.3 billion available on our bank facility, we have ample financial flexibility and liquidity. Our coverage ratio of 1.4x is at a record high. And coupled with a leverage ratio of 3.6x, is reinforcing our commitment to not issue any common equity in 2019. Now for the fifth year in a row.

Now looking forward to Q2. Historically, our second quarter produces our lowest DCF, driven by a number of seasonal factors and current trends. Specifically, we see higher instances of scheduled turnarounds and planned maintenance, which is typical for our second quarter shape and additionally, we're experiencing lower natural gas and NGL prices and temporary constraints in the Permian.

In summary, our position is very strong. Our strategic evolution to transform our portfolio to a 50/50 balance between our logistics and G&P segments has bolstered our earnings and help to fortify the company against volatility in the marketplace. Our commodity sensitivities are lower than they've ever been and we benefit from natural hedges in the portfolio like Guadalupe, to ensure we are effectively mitigating our risks. Our operations continue to optimize each and every molecule and increase our capacity utilization while our DCP 2.0 transformation is driving cost efficiencies and new ways of getting work done.

And lastly, our line of sight to future cash flows is bright and clear, as we execute a disciplined capital allocation strategy, which Wouter will walk us through now.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you, Sean. As you all know, in addition to accelerating our DCP 2.0 transformation, our goal is to further diversify, integrate and balance our value chain while safely and reliably meeting the needs of our customers.

Turning to Slide 7, you can see that we are well positioned within the first wave of midstream projects, solving for the industry's current constraints in the country's top basins. Our demonstrated ability to skate where the PUC will be not where the PUC is has ensured that our projects are low risk and high return, are not threatened by the industry's potential to overbuild capacity and ultimately create long-term value for our unitholders.

With that in mind, I'll quickly highlight some project updates since our last call. We remain on target to put -- O'Connor 2 plant into service at the end of the second quarter, with volumes gradually ramping throughout the second half of 2019. The slate of terrific projects in the Permian and DJ Basins will be in service in the latter half of this year, providing needed gas and NGL takeaway capacity from these key basins. Specifically, the Gulf Coast Express Pipeline is progressing well, as construction on the main line and associated compression is on track to have the asset in service, in October of this year. The fully subscribed GCX pipeline will transport about 2 billion cubic feet of natural gas takeaway per day in the Permian, [all] while we will continue to benefit from our Guadalupe pipeline. This is a solid example of how our capital allocation strategy focus on solving market issues early, establishing our competitive advantage and creating value for our customers and unitholders.

Looking beyond 2019, we continue to execute a solid growth strategy in Colorado that source for our customers' needs for years to come. We are working with our producers to ensure that our future capacity is aligned with our production growth, to guarantee a well-balanced and thoughtful approach to anticipated production trends. We expect to provide initial processing capacity of roughly 200 million to 300 million cubic feet per day in the middle of 2020, underpinned by life of lease acreage dedications from our core Weld County customers.

Our DJ Basin operations are an excellent example of the strength of our fully integrated model. We are unparalleled in providing our DJ customers with a comprehensive midstream solution, including the necessary processing capacity, NGL and gas takeaway solutions and finally fractionation at the end of our value chain. Throughout our asset base, this ability to leverage full value chain economics from the well heads of the Permian, the DJ Basin, the Midcontinent and Eagle Ford, all the way to the Gulf Coast markets, enhances our competitive advantage and drive strong long-term cash flows.

All in all, our footprint, our strategy and our balance sheet allows us to prick low risk, high-return projects in the country's top-tier basins, thereby creating a distinct strategic advantage for our company, our customers and our unitholders.

In closing, on Slide 8. We are delivering on our 2019 commitments. Further demonstrating our consistent track record of accountability through our strategic goals. First, our team delivered outstanding first quarter results, which further strengthened our financial position. We delivered an over 30% increase in DCF year-over-year, driven by double-digit increases in volume including an approximate 30% increase in NGL throughput volumes and a roughly 10% increase in our G&P wellhead volumes. We achieved record coverage of 1.45x which in combination with the proceeds from our non-core divestitures, allows us to self-fund a portion of our growth. With an eye to this type of capital efficiency, we are enhancing our asset base and further integrating our value chain with five critical projects coming online this year alone.

These includes, the O'Connor 2 facility, the Gulf Coast Express Pipeline, the DJ Southern Hills extension, expansion from Front Range and Texas Express and the Cheyenne Connector. We are a more diversified, balanced and sustainable company than ever before as a result of our proactive strategy, which S&P confirmed in their upgrade yesterday. Looking beyond our steel infrastructure, our DCP 2.0 efforts continue to create margin accretive innovations, including capacity expansions and new ways to optimize our operations, both in the field and in the corporate offices.

Finally, nothing is more important than to ensure employees go home safely each and every day, and we are extremely proud to lead our industry with our 2018 total recordable injury rate of 0.23, which was recently recognized by the GPA Midstream Association, as the very best among the largest midstream companies in our country.

I made some commitments on our last call and our team delivered. These outcomes demonstrate our progress towards our DCP 2020 vision of being the safest, and most reliable low cost midstream service provider sustainable in any environment. I'm proud of our team, proud of our company and happy to take your questions.

So, Shannon, please open up the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Shneur Gershuni with UBS. Your line is open.

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

Hi, good morning, guys. Just I guess, wanted to start off with the improvements and optimization and just overall with the DCP 2.0, you sort of talked about you're skating to where the PUC is going, so I guess, my question is just to continue with the hockey reference, what period are we in at this stage right now? We've obviously seen some incredible improvements on operation and maintenance side. But now, you've shown some improvements in volume capacity as well too. How much further is there to go? If you can sort of give us some color on that, that would be great?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Yes, Shneur, this is Wouter. I would say, we're in the first period here, took the [odds] and over time last night to win. I think, we're definitely not in over time, but we are winning. Overall, I think around DCP 2.0, this is something that we started about two years ago, I think we were on the very,

very front-end of thinking about digitizing, completely changing the way we operate this company and we continue to have a lot of results there. But there is still so much opportunity left in my mind, so this is the second time, we did optimization around Sand Hills and increasing capacity in a very, very margin accretive way, without spending any money. So if you think about where Sand Hills is today 0.5 million barrels a day, that's pretty impressive, but you can also see the results around cost. We are doing a lot of things around cost. We're investing heavily in this transformation. But we're also seeing cost coming out not only in the field and how we operate the field, how we run the field, but also in the corporate offices. The integrated collaboration center that we have, where we have the central hub of how we're operating this company is really starting to work better and better and better. The other piece that we have, it's around margin. So when we can run our assets, more reliably and we can be on online all the time, the cash register rings and in the end, that is what you're seeing here in this quarter, I think you're seeing a variety of examples of what happened, optimization on Sand Hills, cost is coming down, the margin is going up, reliability is great.

Our safety performance is really, really great as well. And I highlighted that but reliability and safety are big piece of what we're trying to do around transforming the company.

So going back to your question, where are we? Great success. I am really proud of what the team has been doing and how we've been innovating in our industry, but there's a lot of room to go and there's lot of upside left, I think.

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

When you see there's a lot of room to go in and being in the first period. I mean, all else equal, or take commodity prices, volume stay exactly the same and so forth. I mean, are we talking something in the neighborhood of 10% increase kind of from the annualized run rate in the first quarter or are we talking something significantly higher than that?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Well, a couple of thing, I'm not going to -- I'm not going to put numbers out there -- in the end, think about if I say, we're in the first period, we are also two years in this. So this is not going to be, hey, we're going to do this overnight and we're going to claim victory at the end of the year and these things -- is beyond us. We have a very, very large complex system. So it will take time to continue to change all the pieces in that system, but we've set some pretty aggressive goals here for ourselves internally around how we are going to remotely operate plants and things alike in some of our systems. I think there is more from a cost point of view, our goal as what we've been doing over the last number of years is to absorb significant portions of cost. We building new assets, we bringing those assets online. We continue to give people increases and pay people, we absorb inflation, we absorb new assets coming online. And then there's an opportunity on the reliability side.

So I think, it's too early to give numbers here and say it's going to be 5%, 10%, when is it -- but I think this is a trend, you'll continue to see over the years to come. And in the end, but -- but we want to do and we've spoken about this, is build a very scalable platform and for us if we have a low cost scalable platform, and that is something that I believe is going to be very powerful, especially if you maybe get to a place where the massive growth cycle that we've seen over the last 10 years or 12 years in our industry is starting to slow down.

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

Well, fair enough. I appreciate that. Maybe you can give us an update on the progress with respect to Big Horn and kind of the overall strategy for the DJ. There's been some regulatory proposals especially Weld County, you seems to be signing on, do you kind of expect it to grow from at this point forward and then you move forward with the Big Horn or you still sort of watching the situation and deploying capital carefully?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

So SB 181 and all the activity that we've had here in Colorado is firmly behind us. We do not expect significant impacts from this new legislation, our business model has always been to stay far away from population centers, and be very Weld County-focused and as you mentioned, Weld

County continues to be tremendously friendly in support of the oil and gas industry. So our business, how we set it up and how we've been doing business for decades and decades in the DJ Basin and in Weld County, specifically, I think is really working out very, very well for us. More broadly speaking, what do we expect? So O'Connor 2, we expect first flow in about June or so, the bypass is going to come up in the third quarter, so that's going to give us about 300 million of additional capacity and we think that is going to ramp up kind of throughout the second half of 2019, probably don't see a ramp as quickly as we saw on newborn too. So I see -- I think a more gradual ramp is what we are going to see on the system. So processing capacity is going to be available, there continues to be some short-term constraints not only in the DJ Basin, many other place in this country, but we are working goals -- we're working. This is not just a processing game, it's an NGL takeaway. So we are working that via Front Range, Texas Express, the extension of Southern Hills into the DJ Basin. It's about residue gas takeaway. We're working that together with our partners via the Cheyenne Connector and then it's about downstream fractionation, and we're working that together with Phillips 66 for the Sweeny expansions.

So if you then take this to kind of the next step. Yes, I do believe Weld County is continues to be very, very supportive of our industry. We are working very closely today with our customers to make sure that we have good line of sight, is what are their production forecast, not only as it pertains to SB 181 being low now, but also as it pertains to how they're looking at our cash flows. So we're marking that actively, we're trying to make sure that we are very much synced up with our producer customers, we continue to work long lead-time items, permitting is in place, land is in place. Engineering is working. So net net, I feel very confident that we will add additional processing capacity for our producer customers in the middle of 2020.

And I think, we will probably have a final decision on what it exactly will look like in the next couple of months here.

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

Great. Just two little follow-up final questions, just the usual, obligatory question on IDRs, and also do you have enough frac capacity in 3Q, when it tightens up before it opens up next year?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

I think, right now, the team has done a really, really good job to balance, all the pieces of the value chain. And I think, this is a day-by-day, week-by-week kind of monitored really closely, but the team has done a lot of things to make sure that our portfolio is balanced.

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

And the obligatory IDR question?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Well, yes, I was surprised, you didn't ask it. So I think, we continue to have very constructive discussions with the owners of the GP which is Enbridge and Phillips. I've spoken a lot about in the end for us, it's important to have dry powder to set the stage, and I think we're doing that. We're delivering with very strong execution by the team, strong financial metrics, we are driving earnings growth, we are bringing high return projects online. We do it on budget, on time, we are filling them up quickly, we're building strong coverage, to balance sheet strengthening, the portfolio is much more diversified than it's ever been 50-50 G&P logistics and marketing, fee-based earnings are going up, we are at over 65% now, commodity sensitivities have been reduced and we're close to 80% fee-based and hedged. So yeah, we continue to have good discussions. I think, we are setting the stage on making sure that we can do it is our position of strength.

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

Sounds great. Really appreciate the update, guys.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you, Shneur.

Operator

Thank you. Our next question comes from Spiro Dounis with Credit Suisse. Your line is open.

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

Hey, good morning. Wouter, you mentioned diversifying the business line and making it a little more integrated. And I guess, two things come to mind for me, one, potentially maybe especially in the basins you are in, DJ and Permian will be water gathering assets that I think are growing pretty quickly from what we hear. The other business line potentially would be maybe NGL export terminal capacity, so just curious, do those two business lines makes sense for you? Is there anything you'd be interested in right here?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Yeah. We continue to look at what things make sense for us in the portfolio. Balancing customer needs, capital needs, what our investors expect from us as well and our unitholders. So you know, the two you mentioned are interesting businesses. There is absolutely no doubt about it. We would like to continue to expand the business further and go further down the value stream. We just got to figure out, are there ways to do this and are there ways to do it in a capital accretive way and overall in an earnings accretive way. So I think too early to say, yep, this is something that we're going to do but are we looking at other opportunities continue to grow the overall value chain for us, absolutely, we are. I think, you've seen us do that in 2018, Gulf Coast Express the Cheyenne Connector those are two residue gas takeaway projects that are very significant that historically we didn't do. Think about the deal we did with Phillips 66 around the Sweeny expansions and going further that way. So if there is a good way for us to do it and smart ways to do it, we are absolutely interested in doing things like that.

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

Okay, great. Second one just around the hedging program, we're pretty surprised by some of the margins, you guys were able to pull off here in the first quarter and how well you're able to shield yourself against some of the commodity impact, just curious as we go through the rest of the year, are you able to tell us if that hedging program was front weighted sort of weighted -- evenly distributed, just trying to get a sense of maybe some of the cadence for the rest of the year.

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

Yes, Sprio, it's Sean. First of all, I will comment around the program itself and around where the company has gone obviously being close to 80% fee and hedged obviously gives us some great protection in a tough commodity environment. In terms of the shape, we're fairly well-balanced. The only thing I would give you around Q1 is the -- bottom line gas prices were considerably stronger in Q1 on the hedges and not that they're weak in the back half of the year, but they were a little bit stronger. And then the NGL was slightly stronger. The crude hedges are actually the opposite. As we've been able to put some crude hedges on for the latter part of the year. They are stronger. So as you think about volumes for the remainder of the year, we're hedged at relatively the same levels that we had in Q1. Pricing is a little bit dampened but the company continues to move more fee-based and the head -- between that and the hedging program, at almost 80%. That puts us in a really good spot.

And then of course, obviously with the Permian gas prices and the constraints that we're seeing there, Guadalupe has acted as a wonderful offset to that, as you know those earning show up in the logistics business, so that's part of the driver, why we just saw phenomenal results out of logistics business. But fairly well balanced, nothing -- fairly well hedged the remainder of the year.

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

Got it. Appreciate that. I will -- quick cleanup one, just on Cheyenne Connector. I believe that's caught up in some maybe slight regulatory delay, it doesn't sound like there -- anything serious, yeah but just curious, if there would be an impact on the ramp up of O'Connor to the extent that gets pushed into 2020?

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

No, I think, we're -- the team has done, again a really good job of making sure that we do have residue takeaway. Yes, it's pretty tight in the DJ Basin. That's why the Cheyenne Connector is a very important project, it's going to provide about 600 million a day of gas residue takeaway capacity out of the basin. In the end, FERC continues to take a look at that. I feel the indications from FERC seems to be that we are in a hopefully, May maybe June type of approval. Tallgrass has done an excellent job on securing rightaway and other things. So as soon as that FERC approval comes in, I expect them to run really, really hard to get this project online as it pertains to our ownership option that we have for the Cheyenne Connector that basically triggers a time period after FERC, and so we will decide at that time is that do we want to own a piece of the project.

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

Great, that's it from me. Thanks, guys.

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

Thank you.

Operator

Thank you. Our next question comes from Dennis Coleman with Bank of America Merrill Lynch . Your line is open.

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

Yes, hi, good morning. A couple from me. Just a follow-up, I guess, if I can maybe circle back to Sand Hills to just understand sort of the moves up to or the expansion of capacity up to [500] with no capital, can you talk a little bit more specifically about, what kind of operations, you were able to implement there?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Well I'm -- there's a lot of people in this business. I'm not going to give all the things away that the team is doing in great things, but we've spoken before. It's not the first time we've done this before we spoke about things that we're doing around dynamic set points is really around taking technology and making sure that we optimize the flow of this pipe every second of every day. There is a lot of pump stations that are working in parallel together and there's ways that you can optimize these by using some pretty advanced technology and the team has been able to do. It is now for the second time and it's really pretty margin accretive when you do this, when you think about it. We're running 99% full on Sand Hills and so there's twice, now that we've done these types of expansions and without spending any capital, you run full, you think the margin that it throws off without investing anything, it's pretty attractive. So again, are we continue -- and there was a question earlier about, what are the things you guys do around technology? These are the type of things that we're doing, running the system better, taking some pretty advanced technology and analytics from things potentially within or outside of our industry and applying that to our operations in very creative ways and fashions and the team has been very successful in doing this, so my head off to the team.

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

Sure. That's helpful. And that's good stuff, I just sort of it, as I listen to you talk about that and what I hear is just run the asset harder and so I guess that does lead to a couple of follow-on questions. In terms of, does that mean, we should expect more maintenance CapEx kind of things in future years? Or is it maybe for -- if you think about higher DD&A rates?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Yeah, let me correct it. This is not about running the asset harder. This is about running the asset smarter and there is a very, very big difference in that. So this is not about, hey don't push -- push your asset kind of over the brink or start redlining kind of the meter and doing it that way. This is about utilizing smart technology using advanced analytics, ways to differently do things around our system. So that is what this is about. So this is not about run it harder, run it in the ground. It's all about running things smarter.

So yeah, I don't see a thing here that says, all therefore, we need to do more maintenance or other things like that. This is pretty accretive and very smart way of doing this. Remember also some of my comments that we had -- running things harder means you're most likely not reliable on the long run, running things harder means most likely, you're not very safe. We continue to be more reliable than we've ever been before. I mentioned to you about our safety record. Nobody in the midstream industry in this country has a better safety record than we have, and that is pretty amazing. And that's something that we pride ourselves on, we want to run things smart, we want to be reliable. We want to be very safe and in the end for our investors for you as analysts that means that hopefully, there's significant benefits that come to the bottom line. That's what we're focusing on with DCP 2.0, that's what our technology transformation is all about, to come to our integrated collaboration center here in Denver, like we've had analysts and investors come. You will see that what we're doing is very, very different than how this company has been run before and how other companies are being run in our industry.

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

Okay, that's great. That's very helpful. I appreciate that.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you.

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

Just one more, I guess, little more detail, on Gulf Coast Express, some hint that it might come on early, any, thought that it might come on sometime in the third quarter. You've mentioned, the fourth quarter.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

I think all of the partners in Gulf Coast Express and everybody in our industry is highly incentive and cannot wait for this pipeline to come online. So what I mentioned earlier on that, hey we are trying to be early on to kind of figure out where our constraints and then we work either by ourselves or with our partners to alleviate those constraints, Gulf Coast Express is a great example of one of those.

And -- but the pipe is fully subscribed. We've seen some pretty, pretty rough prices, obviously in the Permian, in the first quarter and in the month of April and we are all tremendously highly incentivized to get this plant -- sorry -- to get this pipe online as quickly as we can and we're all working hard to getting it there. Right now, it looks like, it's going to be October. But if it can be earlier, I'm sure everybody in the industry would be applauding all of us.

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

Fantastic. Thanks for the answers.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you.

Operator

Thank you. Our next question comes from Jeremy Tonet with JP Morgan. Your line is open.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Hi, good morning, thanks for all the color that you provided today. Just wanted to get a little bit more clarity on Waha specifically, it seems like there is kind of puts and takes in the portfolio with maybe some POP exposure, but then also some marketing on Guadalupe. Just wondering, is the basis wider, a net positive or net negative. And could you help quantify that for us?

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

Yeah, I mean, for the most part, we try and we -- talk about it as a natural hedge. So it's -- it can tend to be breakeven, that's sort of the way we look at it. But to be -- what I've indicated, Jeremy, is that for Q1, it was a slightly positive on us, the basis spread widen a little bit and we had the ability to make a little more money on that spread via our Guadalupe asset then we obviously were hurt in the G&P side on the Permian side, but at the end of the day, I think if you're thinking about modeling it, view it as a very solid even balanced natural hedge most of the time.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

I think what is important and -- is how do you color it within the different business segments. So it's a net negative to the G&P side of the house. It's a net positive to the marketing side of the house. Taken together, and they are pretty close to balancing out maybe a slight positive for the first quarter.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

That's helpful, thanks. And just a smaller question, on the margin by segment slide that you guys have provided historically. I think, there was a breakout for how much in G&P was fee-based, and I think it was 38% last quarter. I might have missed it, but I did't see that this quarter, could you -- just let us know how much fee-based margin was in G&P this quarter?

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

Yeah, I'll -- let me -- let you take that offline with Irene and we can get you some of those numbers. If we are calculating them. I think, we've changed that schedule, and we're doing it a little different because of the -- some of the new RevRec standards, 606 impacted us. And we had to make a few changes to that schedule. And I think that's what you're seeing is the implications of 606 or the, if you -- the RevRec standard. But why don't you -- we can put you offline with Irene, and we can see if we can get you to help you out.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay, that's helpful. I'll stop there. Thanks.

Operator

Thank you. Our next question comes from Elvira Scotto with RBC Capital Markets. Your line is open.

Elvira Scotto - *RBC Capital Markets, LLC, Research Division - Director*

Hi, thank you. Just a couple of follow-up questions for me. So on the Sand Hills capacity expansion, is there ability to do any more of that capacity expansion through optimization?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Elvira, it's a great question. I probably have raised that question to our team. A handful of times as well. This is the second time that we've done it, unlike the first one was about double the size of what we did here. I think, we're getting pretty close to this is what we can do but you're not the only one asking. There is definitely it. I'm asking the team and -- but I think we're getting pretty close, can we squeeze out maybe a little bit more, maybe we can, maybe we can't, but the team is obviously, they want to figure out how can we make sure that with all the great contracts that we have for NGL takeaway out of the Permian, how can we make sure that we push more through sort of pipeline and be very capital efficient. So probably pretty close, but it's something that we can probably replicate on the Southern Hills pipeline as well. And so that's attractive to us as well and we have a lot of water pipelines, where we can potentially do similar things when we get to where it's kind of capacity.

Elvira Scotto - *RBC Capital Markets, LLC, Research Division - Director*

Thank you for that. And then in terms of the Midcontinent volumes on the -- in gathering and processing, it looks like that was a pretty steep decline in the first quarter of '19 versus 4Q '18. How do you see that volume trajectory kind of throughout the rest of the year?

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

So I think, we are still -- Elvira, this is Sean. We're still in line with our original projections. I think, we thought we'd be down in 2019 regarding the Midcontinent versus '18. A couple of things I do want to bring to light, we benefited from some offloads, obviously we're in an industry where you can -- there's at times you can get gas into some of your plants due to interruptions with competitors and various other -- we saw a lot of that in Q4 in the Midcontinent specifically at our National Helium Plant that really helped the volumes quite a bit, but we had forecasted in our guidance that -- that would go away. Those are opportunistic volumes. So we -- I believe, I gave guidance last time that the Midcontinent would trend down a little bit versus coming out of '18 and we still are seeing that very much in line with our original guidance.

But having said that, on the positive side, some pretty good pickup versus Q1 of last year and I think you noted that.

Elvira Scotto - *RBC Capital Markets, LLC, Research Division - Director*

Yeah. Great, thanks. And then is -- do you have any update on the Gladiator pipeline project. Is that still a viable project?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Yeah. So we received very significant interest during the open seasons that we had. We extended the open season twice. The last one expired at the end of March. I think, right now, if you look at where the markets are I think market conditions limit potential customers to make really strong and firm 10-year commitments at this time. At the same time, we continue to have discussions with potential customers. We may reopen the open season in the future. In the end for us, this was all about an NGL play. It was all about can we convert Southern Hills and create additional capacity there. What we are doing and we are looking at what can we do around Southern Hills right now. Today, Southern Hills has probably about 190,000 barrels of capacity. We are looking hard at should we improve that capacity overall. Our is a relatively low capital project that we can do, where we set two pump stations. This is very low cost, high return type of multiples that we get, and we could expand probably from 190,000 to 235,000 barrels a day on Southern Hills. So that's something that we are very actively looking at -- at this very moment.

Elvira Scotto - *RBC Capital Markets, LLC, Research Division - Director*

Great. That's all I had for now. Thank you.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thanks, Elvira.

Operator

Thank you. Our next question comes from Gab Moreen with Mizuho. Your line is open.

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

Hi. Good morning, everyone. Just a quick question on Big Horn. Is there any expectation that some of that CapEx get spent in 2019 or is that really going to be a 2020 sort of spend.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

I think, the way you kind of look at it and that's part of what we're also trying to work really hard around them -- like we are very, very confident around where we are with our capital program, if you think about from early December to when we gave guidance, we've taken our capital program down. We have a significant spend here in the first quarter but that's really because a lot of our projects are fairly front-loaded. If you think about it between GCX between the O'Connor program coming online. We're kind of looking at it and say, how can we do Big Horn in a most capital-efficient way. And that means not only hey, how do we spend the money. What's the size of the program? How do we build it? What is it going to hit 2019 or 2020? So I think right now, the vast majority of that capital would be in 2020. There probably is some

[2019] capital that you would have on that program.

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

And this is Sean. Just a follow-up and Wouter alluded to this. We are frontend-loaded on capital both Q1 and Q2 driven by Gulf Coast and at the O'Connor 2 project. So I know, I saw some questions potentially around the heavy capital Q1 spend, that was totally within our expectations.

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

Thanks, guys. And then second question for me is just really around the outlook for Sand Hills, any expectation for impacts volume wise there in the back half of '19 is you have a lot of, I guess NGL, new builds and expansions coming online from hitting pipes.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

No, our contract portfolio is pretty strong, unlike we -- our largest contracts that we have when we signed them up in 2016, were 20-year contracts. We have some -- a lot of other contracts that are, I think some of the earliest ones that are starting to fall off are in 2023-ish give or take. So no, I feel very comfortable around what we're doing around that pipe and the contract portfolio that's backing it up.

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

Great, thanks.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thanks, Gab.

Operator

Thank you. Our next question comes from James Carreker with U.S. Capital Advisors. Your line is open.

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

Hey guys, thanks for the questions. Just wanted to ask about the reduced O&M and G&A levels, big -- big reduction versus Q4, but we saw a similar kind of low-level in Q1 of '18 as well. So I guess, how should we kind of think of those as we move through the next three quarters, are these levels good or will those trend up again throughout the year?

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

So Q1, I think you're picking up on a trend. Q1 traditionally, just in general is a lower quarter. But as Wouter said, we committed to driving those costs down from Q4 levels. We delivered on that. So those things are sustainable as you move forward. One of the things you heard Wouter talk about earlier and I think in my comments is we are starting to drive more and more efficiencies from things like 2.0 from the transformation efforts, both in operations and in the corporate. So that will continue. Those trends will continue through the remainder of the year. Having said that is you're thinking about shape my comments around Q2, typically we spike up a little bit on cost that is just driven by the seasonality of the maintenance and the overhaul work and the turnaround work that we do. If you look at last year that kind of peaked as well in Q2. So for the long run, I think the key takeaway is we continue to -- are driving then expect our costs to go down, to offset inflation, to clearly be lower than our '18 levels. So '19, I gave that guidance earlier. We are driving this company to lower cost levels in '19 and then I think Wouter alluded earlier. Our goal is then to be able to sustain that through the 2.0 and transformation efforts as we move into the next few years.

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

And would you expect similar type seasonality on the G&A, if you took out the O&M or is the level for Q1 there pretty good going for --

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

There's typically not a ton of seasonality in the G&A, the only thing that happens in Q1, which is actually it goes the other way is you tend to have a lot of medical stuff, obviously as you get towards the end of the year, that tends to hit in Q1. The G&A seasonality tends to be, it's not driving what's happening in Q2.

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

Okay. And then I think, Sean, you mentioned as you talked about Q2, some constraints in the Permian. I was wondering if you could just elaborate a little bit on kind of what that specifically references and what kind of impact that has for you guys.

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

Yeah. So in particular a couple of things we're seeing and we didn't talk about this earlier, but our rejection levels are down significantly from the previous quarter. So we're starting to see rejection come down. A lot of that was driven by economics in the frac spread. We talked about the low gas. So NGL volumes are up, obviously we push a lot of NGL out of the Permian area and Wouter alluded to the gas constraints as well until Gulf Coast Express comes back online, we're seeing those constraints. So those will kind of materialize and lower gas prices. Again not to beat the dead horse, but Guadalupe is a wonderful offset to those lower prices, but we are seeing potentially some limitations as we are rejecting less more NGL volumes on the pipelines, that sort of bottleneck is happening in the fractionator side of the equation. Our team has done a phenomenal job of managing that thus far. And of course as you know, there's some fractionators coming online.

But the watch out is that could result in lower netbacks for the company. I'll give you one key example, even though we're not, we're still moving those volumes, those NGL volumes, we're moving more of them to Conway, than we would to Bellevue. It shows the diversity of our portfolio. But those do give us lower netbacks. And we think, we'll see more of that in Q2. Not a huge number. Just a watch out that I want to make sure people were aware of in Q2 and temporary, that's the keyword. There's a lot ---

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

Sorry, I was going to say, so you think that by Q3, the frac shortage should be largely resolved, you'll be able to ship more down to Mont Belvieu?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

It's Wouter, James. I think, we're trying to do as many longer-term deals, interim deals as we can to make sure that we bring our customers' product to the place where it creates the highest value for both our customers and for ourselves and obviously that is Bellevue. It's a pretty dynamic market. There's a lot of infrastructure that is going to come online.

There is some fractionation infrastructure. At the same time, there's also NGL infrastructure coming online, which pushes more product into Bellevue. So I think, it's pretty dynamic. But I think, as Sean mentioned, it is something that the team has been -- dealing with in a very, very productive way for us and we'll continue to do that day-by-day, week-by-week and month-by-month until we get to a place where this bottleneck is probably completely solved for the industry as a whole, which is somewhere closer to the middle of 2020.

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

Appreciate that. I guess last question for me. You were asked about optimization more for Sand Hills. I guess, would, is -- would you consider something that was more capital intensive, whether it's looping portions of the line. Are there other cost-efficient ways to do, you know, I guess more capital intensive expansions. And, yeah, what are your thoughts are that?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

So we -- yeah, so we have done three expansions on Sand Hills. So if you think about where we were originally 230,000 barrels a day when this plant came online or this pipe came on line. Now we're sitting here at 0.5 million barrels that are going through, so we have done a multitude of expansions, optimizations. We are -- unfortunately, I wish we could set more pump stations and do things that way, but we cannot. So in the end, if you got to do more but you would have to do is you would have to do more looping of the line, which is pretty capital intensive as you're talking about. If we get the right contracts and those are firm contracts that would backup volumes, we absolutely would take a look at doing potentially something like that. At the same time, we're probably not going to do it as based on an acreage dedication or a plant dedication, where we don't have certainty of the product actually flowing through the pipeline. So if there is an opportunity to do it, we absolutely will think about it. At the same time, there is -- there's some pretty significant capacity that is being built right now and we potentially could utilize some of that capacity as well.

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

Okay, appreciate it. Thank you.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you, James

Operator

Thank you. Our next question comes from David Amoss with Heikkinen Energy . Your line is open.

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

Hey, good morning, guys. Appreciate all the commentary you've given so far. I just wanted to dig in a little bit more detail on Guadalupe and just the dynamic between GCX coming online net to DCP versus what you're doing in marketing via Guadalupe, how to think about that as we get closer to GCX coming on?

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

So there is an element, Guadalupe has been a phenomenal performer for us and a wonderful offset obviously to the lower Permian prices. Your point obviously is that when GCX comes online and more infrastructure comes online that bottleneck gets alleviated and obviously and Wouter alluded earlier, we saw, we're seeing much higher earnings in our logistics business and it's impacting G&P when that world and when we get to that point in time, you'll see a little bit in inverse. The one thing, I would point out is similar to our hedging strategy that we use across the business, as you think about Guadalupe, our marketing team has been looking much more beyond just the next month. The next three months. So to give you some color, we have hedges and we have a strategy on making sure we extract as much value out of that asset over the next few years and we have taken and been able to take advantage of this very strong environment that we're seeing. So it's not like all the sudden the Permian goes to normal netback and creates all this cash flow and Guadalupe goes to historical levels, which were relatively low, $0.30 spreads was pretty common historically and we've seen them over $2. So my point is this, going forward, as that bottleneck gets eliminated, Permian earnings will go up. Guadalupe will diminish. But it's not going to go to nothing, because our team has obviously optimized that over the next couple of years.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

And I think David maybe to add to what Sean was saying, I don't think very few people expect that these basis differentials are going to be gone when Gulf Coast Express comes online unlike various other pipelines that are absolutely needed to make sure that we can continue to grow the Permian Basin. So if you look at pretty far out of the curve, multiple years out of the curve. We see very attractive pricing based on basis differentials and what we can do around this Guadalupe asset. So I think there is lot of chapters that are continuing to be written on the Guadalupe pipeline.

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

Thanks, guys. That's really helpful. And just one last quick one, Wouter thanks for kind of clarifying how to think about Sand Hills. Can you update us on what of your 0.5 million barrels a day is contracted at this point and what spot?

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

I think 100% is contracted. So I think, everything that we do tends to go under long-term contract. So we're 100% contracted there.

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

Great, thank you.

Wouter T. van Kempen - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

Thank you, David.

Operator

Thank you. And I'm showing no further questions at this time. I'd like to turn the call back over to Irene Lofland for closing remarks.

Irene Lofland - *DCP Midstream, LP - VP of IR*

Thank you and thanks, everyone for joining us today. If you have any follow-up questions, just give me a call. Have a great day, everyone.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation. Have a wonderful day.
