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DCP.N - Q1 2021 DCP Midstream LP Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q1 2021 DCP Midstream Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Sarah Sandberg, Senior Director of Investor Relations. Thank you. Please go ahead.

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**Sarah Sandberg** - *DCP Midstream, LP - Senior Director of Communications & Public Affairs*

Thanks, Angela. Good morning, and welcome to the DCP Midstream First Quarter 2021 Earnings Call. Today's call is being webcast, and I encourage those listening on the phone to view the supporting slides, which are available on our website at [dcpmidstream.com](http://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 section of the slides.

Wouter van Kempen, CEO, and Sean O'Brien, CFO, will be our speakers today. And after their remarks, we'll take your questions.

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

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

Thank you, Sarah, and good morning, everyone. I appreciate you joining us.

Our team delivered solid first quarter earnings despite managing through the historic volatility created by Winter Storm Uri. First and foremost, I want to thank our team for tremendous execution through this event without a single safety incident or any employee or contractor injuries. This hard work helped us achieve adjusted EBITDA of \$275 million and distributable cash flow of \$175 million, which resulted in leverage of 4.1x and over \$1 billion of liquidity at the end of Q1. We maintained our dedication to cost and capital discipline with a 22% reduction in cost and 55% reduction in sustaining capital versus the fourth quarter of 2020. In all, we generated a 5% sequential increase in excess free cash flow, totaling approximately \$90 million in the first quarter.

This solid quarter is a testament to the multiyear strategic transformation of our business model. We balanced and diversified our portfolio, prioritized capital discipline and invested in DCP 2.0 to drive efficiencies in our business and restructure cost basis. These deliberate, strategic actions have positioned DCP to successfully navigate the historic supply and demand shocks resulting from a pandemic, compounded by adverse actions by OPEC and an epic winter storm and our assets continue to prove their earnings power, generating significant excess free cash flow throughout historically challenging environments, which brings me to Slide 4.

In total, Winter Storm Uri resulted in a \$60 million adverse impact to our first quarter earnings. As a result of severe producer volume declines and record natural gas pricing, the storm created negative impacts on commercial settlements, including natural gas marketing swaps, which were partially offset by DCP's balanced portfolio and integrated value chain, including gas storage. The DCP team prioritized safety and proactively prepared our assets for the storm and maintained near-perfect reliability while gas was still being produced.

We were also able to leverage the DCP 2.0 platform and our integrated collaboration center to provide our teams enhanced visibility into our assets with real-time data, enabling an informed and proactive response. Our team's exceptional preparation and execution, supported by our leading digital platform, was instrumental in our ability to safely and effectively manage through the storm and maintain our 2021 financial guidance. As you can see on the slide, exit to exit, our G&P and NGL pipeline volumes have improved, and we're confident in our team, our strategy, our portfolio and ultimately our continued success.

On Slide 5, I'll highlight the versatility of the DCP portfolio and the connectivity of our fully integrated value chains as a critical component of our success during these recent challenges. We generate diversified earnings from multiple basins and revenue streams, from wellhead gathering and processing, to fractionation and storage, the DCP portfolio is positioned to maximize earnings across the value chain.

Over the past decade, we have invested in expanding our logistics portfolio and strategically connected Sand and Southern Hills to our G&P business. We also were able to leverage our G&P footprint to vertically integrate fee-based natural gas transportation pipelines like Gulf Coast Express and the Cheyenne Connector.

Since 2010, we have stabilized our cash flows as we grew our L&M earnings share from 10% to 60% of adjusted EBITDA. In 2019, we anticipated the industry's super cycle of growth coming to an end and employed a capital-efficient supply long capacity short strategy to mitigate overbuild and utilize existing third-party capacity and infrastructure rather than build new assets.

Along with shifting and optimizing the asset base, we took additional transformative action to better position DCP for a sustainable future. DCP was a first mover in the industry's digital transformation, investing in DCP 2.0 since 2016 to drive efficiencies, enable real-time improved decision-making and enhance safety, reliability and asset optimization.

We have reinvented the way we operate our business, which has helped to reduce our annual cost by \$155 million, or 15%, since 2015 while absorbing inflation and investing in transformation initiatives and improving our culture and employee experience. Combined, these dedicated strategies have stabilized our cash flows and positioned DCP to generate excess free cash flow, which has enabled us to delever the balance sheet and provide increased financial flexibility through even the most challenging environments.

I'll now turn it over to Sean, who will walk us through the financial details of our first quarter.

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

Thanks, Wouter, and good morning, everyone. I also want to thank our team for the incredible hard work in the past quarter year.

In Q1, we generated adjusted EBITDA of \$275 million and DCF of \$175 million, resulting in leverage of 4.1x. As Wouter mentioned, we added \$60 million adverse impact due to Winter Storm Uri, which was primarily due to lower volumes, gas marketing losses associated with financial swaps and higher costs due to increased labor and utility expenses at some of our affected assets.

Key drivers offsetting the headwinds created by Uri include the strong performance of our Spindletop natural gas storage business, cost and capital discipline, as well as a favorable commodity price environment. Outside of the storm, G&P margin was impacted by lower volumes quarter-over-quarter, which includes the expected contract expirations in the Eagle Ford.

The Logistics and Marketing Segment was impacted by lower Sand Hills volumes, attributable to continued ethane rejection by third parties during the quarter, which was partially offset by stable Southern Hills volumes due to incremental supply from the DJ. For the quarter, costs came in at \$187 million, which was the lowest quarter spend in over a decade. Commodity pricing for the quarter was also favorable by \$36 million, primarily due to strong NGL and crude pricing.

Looking to the second quarter, G&P and logistics volumes in April improved relative to Q1. Average Sand Hills volumes were up 29% in April compared to the first quarter due to improved ethane recovery and increased third-party volumes out of the Permian. We are also seeing improved G&P volumes across the footprint approaching Q4 levels. During the second quarter, we anticipate some cost and sustaining capital that was deferred due to the storm. With this solid quarter of earnings, we expect to be in a great position to meet our 2021 guidance and remain on track to continue to reduce debt.

On Slide 7, I'll highlight that our stable cash flows, which are 88% fee-based and hedged, along with our focus on cost and capital discipline has DCP well positioned. In the first quarter, we generated \$89 million of excess free cash flow, which was \$121 million increase from Q1 of 2020. With a strong start in Q1, we continue to expect to retire our upcoming September bond maturity, primarily utilizing excess cash. Debt reduction continues to be our top capital allocation priority as we remain committed to our mid-3s leverage target in the midterm.

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

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

Thanks, Sean. Wrapping up on Slide 8. The DCP team and portfolio continued to perform very well as evidenced by our ability to offset 3 separate and remarkably challenging black swans in the past 14 months. Through stress test after stress test, we have proven the benefits of our long-term capital allocation strategy; the quality of our assets and their earnings power; the competitive advantage of our DCP 2.0 digital transformation; and our ability to quickly adapt, control what we can control, and effectively manage any environment. We will build on this momentum and remain focused on safety, operational excellence and customer service while maintaining our cost and capital discipline.

And although we will speak to our sustainability efforts in more depth on our second quarter earnings call, we're excited to be making considerable progress on our ESG efforts. With a 15% reduction in Scope 1 emissions from 2018 to 2020, increased diversity of the Board of Directors, continued leading safety metrics, many, many other advancements, we look forward to sharing our progress on our second -- in our second annual sustainability report this summer.

In all, with a strong base business, demand recovery in sight and a constructive commodity price environment, we're well positioned to build on our first quarter performance and meet our 2021 commitments to increase excess free cash flow and strengthen our balance sheet.

And with that, we're looking forward to taking your questions.

Before that, I want to thank Sarah Sandberg. Sarah has been with us for 2 years in the Investor Relations role. Sarah, really appreciate everything that you've done. You've set the bar really, really high for people that come after you. And Mike Fullman is going to take over from Sarah. And I'm absolutely 110% confident that Mike will do a fantastic job. So Sarah, good luck and all the best. I know you're going to do great things for the company. And with that, I'm handing it over to Angela for the Q&A section.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Jeremy Tonet with JPMorgan.

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

I just wanted to kind of start with, I guess, the recovery here coming out of the storm and into the second quarter. It seems like things are really improving here. Just wondering if you might be able to expand a bit more on that, I guess, as far as drilling cadence over the rest of the year. And are you seeing kind of different trends from privates versus publics there? And how does that impact you guys?

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

Jeremy, it's Sean. I'll start a little bit and let Wouter talk about the -- what's going on with some producers. But from -- in terms of a trend perspective, we are definitely seeing some really good trends. Obviously, it's good to get Uri behind us. A couple of things to consider. We are seeing -- we've been in recovery since last year. But we are starting to see third parties go into recovery. So some of my comments alluded to some pretty good volumes on Sand Hills, and you'll see that and hopefully continue through the rest of the year, but definitely a trend in Q2.

In terms of -- there was a little bit of a lag in some of the volume growth that we were expecting this year in a couple of regions. We are seeing those start to tick up. So the Permian, Delaware Basin, you're seeing volumes coming in a little bit stronger. I'll remind you that, that's another plus for Sand Hills, not only recovery but you're seeing incremental volumes. And then on Southern Hills and the DJ, we are seeing volumes definitely start to improve and pick up, again, post-Uri and into Q2. And that bodes well for the G&P business up there as well as the Southern Hills pipeline.

So as we sit here today, the outlook in Q2, I think you're reading it right, is definitely improving and looks pretty good.

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

Yes, Jeremy, a couple of things to add. I -- in general, I'm very proud of the team and how the team continues to perform. I think the assets are running very well right now. Obviously, it took a while getting out of the storm. But if I look at all of our operational excellence KPIs around safety, around reliability, things are going well. So that is a -- that's a nice way to kind of get out of the storm and get things set up nicely.

From a volume point of view, I think the trend is kind of the same as it's been here for the last couple of months, really good discipline by, I would say, the larger public producers. And I think that is a really, really good thing. Having discipline, making sure that we don't kind of overextend ourselves quickly, overshoot the market, flood the market with supply, I think that is a very, very good thing for our industry overall. So the discipline around free cash flow being measured, absolutely seeing that with our large producers.

At the same time, we're definitely also seeing them looking into the second half and say, "Hey, maybe there's an opportunity to add some crews, add some rigs and things alike." And then what we're seeing, like I think many others are seeing as well is the smaller producers, the private producers are definitely adding rigs and volumes. So there's -- there are -- you definitely see a bit of a discrepancy between those 2 players.

But overall, I'm pleased in general with everything that I see around the company and looking forward to a good rest of the year.

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

Got it. That's helpful. And obviously, ESG sustainability, energy transition topics that have really kind of dominated investor conversations as of late. Just wondering if you could expand a bit more on what that means for DCP. Obviously, the trick is you want to do things that are economic and capital-efficient as opposed to just chasing things out there. Just wondering what you see on -- in front of you here. Is carbon capture on your radar? Does the 45Qs make -- economic for you? Or any thoughts you could share on these fronts would be helpful.

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

Yes -- no. That's a -- yes, you're absolutely right. I think outside the Winter Storm Uri, energy transition, sustainability is something that we have discussed most sitting in this room where I'm currently taking this call with the rest of our management team and people in the company. And we have -- around energy transition, there is a very dedicated, informed effort that we have internally. It is led by a number of -- 2 of our EC members, our executive committee team members. We have DCP Tech Ventures that historically was focused on really expanding -- or focusing on just digital, now very much focused also on low carbon.

We're looking at a variety of options around energy transition, be it RSG, RNG, solar, CCUS, electrification of the fleet. And I think in the end, if you look at energy transition, it's a -- really part of a comprehensive sustainability strategy. And yes, even though sustainability is kind of a buzzword and everybody is talking about it, for us, it has been a very long-time focus. And let me explain that a little bit.

When you think about safety, since 2007, which is as far as I could get the HR records to go in the company, we've had every single employee within DCP Midstream have as part of their bonus, are we operating safely in the communities that we serve? Reliability. We have in our bonus structure, it's all about reliability. So -- and if you think about reliability and sustainability, they go hand-in-hand. When your assets continue to run, when you don't have any upsets, you do not vent, you do not flare. And it's good for cost. It's good for your profitability and revenue and margin. It's also really good from a sustainability and from an emissions point of view.

Emissions has been in our bonus metrics for at least 5 years as well. So there's a lot of stuff that we've been always doing within the company that is focused on, "Hey, making sure that we are a good, reliable and therefore, clean operator."

We issued our inaugural sustainability report in 2020. We're going to issue the next one here this summer. So that's why on the second quarter earnings call, we should -- we hope we talk a little bit more about it. We're going to give you more robust disclosures. Our team, Sarah, has been working with EIC and GPA on kind of a comprehensive template that many people in the industry are going to use. So we make it easier for you, as analyst community, for investors to look at things, to compare it to see how we're doing things.

I'm really pleased with what I'm seeing. Like we've done a lot of, I call it, cleaning the core. I've spoken about the largest industry-led methane survey that we started with Kairos Aerospace, where we are flying our lines in the Permian, in the DJ Basin, in the Midcontinent and looking at fugitive emissions and making sure that we get on top of it as quickly as possible.

We've always spoken about the consolidation of assets. You guys have always given us a lot of credit and say, "Hey, you guys are very proactive at how can you consolidate asset." I mean we're always focused on, hey, what is the cost picture of that? But the emissions picture of that is very significant as well: a, you have fewer plants running; and b, you tend to consolidate in your stronger, better assets.

So that's why you've seen our Scope 1 emissions go down fairly significantly from 2018 to 2019 by about 10%. And then by -- from 2019 to 2020 by about 6%. And then on top of all of that, we have an I&D team that we put in place this year. We have a broad-based I&D committee. I mentioned improved Board diversity.

So I gave you a long answer, I think, but hopefully, it was comprehensive. But there's a lot of things that the team has done that we're doing, we continue to do and that we're hopefully been able to disclose with you here in the coming months.

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**Operator**

Your next question comes from Shneur Gershuni with UBS.

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

Congrats to Sarah on the new opportunity and looking forward to Mark (sic) [Mike] doing well.

Maybe to start off a little bit here, I'm just wondering if we can talk about the operational sustainability of the first quarter. When I -- if I sort of add back the negative impact from the storm and annualize it, it would seem that you're -- you did very well in the first quarter. That would be above kind of on an annualized basis what you did -- what you're guiding for the year. Were there some timing benefits and so forth within that? Can you talk about how that momentum sets up for '22 trend-wise, just assuming a constant commodity environment?

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

Yes, Shneur, Sean. I think a couple of things to think about. I think your general thesis is correct. I mean Q1, if you took the storm out, obviously, would be a pretty strong quarter for DCP. It still was a very solid quarter.

There is some timing here. We can't just take some of those run rates in Q1 and just exclude the negatives and assume that some of the positives are going to continue. For instance, I'll give you a couple of easy ones. Prices ran, obviously, that could be a negative, and we talked some about that in our written remarks, but there were some areas where we were still running. The DJ was running quite well, and CIG prices ran up, and they're -- they've now come back to more normalized levels. So you can't extend that all the way into the remainder of the year. There were some areas in the South that may -- where we had some assets running that made -- the pricing in those hubs were very, very strong. You can't extend that.

And I think the biggest one, and I -- we talked about a little bit is you can't -- I'm very proud of the way the company operated around cost of sustaining capital in Q1. I mentioned it was the lowest in a decade, but please don't annualize that. We have some catch-up to do for various reasons. In Q1, you have not a lot of work happening because of the weather. And we obviously were trying to keep the belt pretty tight to see how we got through this event. And again, got through it very, very well, but we'll need to catch up on some of that.

Having said that, if you look at the overall fundamentals going forward, post-Uri, if things hang in where they're hanging in right now - we gave some commentary, volumes seem to be improving, and commodity is very constructive right now - if we can stay in this environment, we've always said that DCP, our portfolio is very balanced. We perform pretty well in these types of environments.

So you can take whatever curve you want and put it on our sensitivities and come up with various levels, but we're -- if things hang out where they're at. I think we're set up for a pretty good year, Shneur.

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

I appreciate that. And maybe just to follow-up on that a little bit here and sort of talking about your commodity exposure and your hedge positions. Sort of given the strength that the market's at right now, do you try and lock in some '22 hedges? Or is the liquidity a little too light? But just given -- and then in sort of thinking about that, given your experiences during 1Q in terms of some -- of how some of your hedges work, is the strategy to run a little less hedged or do hedges a little differently in terms of avoiding basis hedges and so forth?

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

I think there's 2 things there, and I'll address them both, Shneur. In terms of the generic hedging of our equity length, we do have a multiyear hedging program. Obviously, we have a lot of gas hedged for this year. And advantageously, as we sit here today, we have some room on NGL and crude, and that's probably not a bad thing.

But again, I'll remind you, with the growth in the fee and the hedges we have in place, we're 88% fee or hedged this year, that continues to grow. We are looking at '22, but our hedge targets are pretty strong. Wouter made sure that we're keeping a pretty good view. And if we are going to put hedges on, that they're -- Shneur, what we're really focused on around that pricing is leverage covenants and so forth. And so we'll hedge at levels that keep us in -- and moving towards that mid-3 target.

The other question, I think, that you asked is, in Q1, we had some swaps in place, and obviously, with massive amounts of shut-ins, you ended up a little bit long on some of those swaps on a gas daily basis and when you don't have the volumes to cover it. And I want to give some kudos to the team. We covered a lot of those positions. The team scrambled in Houston. Our marketing team did a great job, but we were short some. Are we looking at a different strategy in the winter or when you potentially have those upsets? Absolutely.

And Shneur, I'll tell you, the positions we have, those swaps in February were pretty small. When you look at our overall position, you're looking at less than 200 a day on those swaps. But obviously, when prices run to \$400, \$500, \$600, it can have a benefit.

But Wouter's got the team. We're doing a lot of good lessons learned. I'm sure a lot of companies are doing that coming off of Uri. It was a Six Sigma event, but I do think you'll see some policy shifts and some different strategies that we'll deploy next winter for sure.

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#### Operator

Your next question comes from Chris Tillett with Barclays.

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**Christopher Paul Tillett** - Barclays Bank PLC, Research Division - Research Analyst

Just I guess to follow-up on Shneur's question there at the end. Are you able to allow -- I guess as you've done a postmortem after the storm, are you able to elaborate at all on kind of any of the financial or operational changes that either have already been implemented or that you're looking at?

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

I can hit a couple. Wouter's got the team. I mean hindsight's always 2020. But there are a couple of things to keep in mind: the assets ran well. So the A-plus score, we were ready to run had the volumes been there. And that's back to Wouter's comments on ESG, that was a massive win for the company. And then we had no safety incidences, that was a big win.

In terms of looking back, I think there's a couple of things, and I mentioned one, we probably, in some of these winter events, winter storm periods would maybe dial down a little bit the swap position. Those are -- by the way, those are plain vanilla or pretty standard positions and the risk -- they're trying to take risk off. We're trying to take gas daily daily risk off. But obviously, when 90% on some days, if your volumes don't show up, it could be a pretty tough thing.

Another area that the company is looking at is, obviously, gas storage is a really nice hedge and a lot of companies, including DCP, those storage assets performed quite well. Nothing imminent, but we are looking at -- we have the ability to expand some of our storage assets, pretty low capital opportunities, pretty easy to do. So we may look at that, too, because it worked as a really, really nice hedge against periods where you get shorted other gas.



There's a few other things around contracts that we may look at. But by and large, the portfolio was fairly balanced. So we're looking at maybe enhancing some areas like storage and maybe pulling back a little bit on some of the swap strategies that we use.

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

Yes, Chris, maybe -- I think Sean -- call it, 95% of it, I think, in general, just to say, our focus has been on making sure that we get the assets back right, and everything is going well. And there will be a continued significant amount of time spent here to make sure that everything that we do within the business is optimized. And if there are any learnings from this, either from, hey, dial risk in a different way or are there different commercial opportunities to look at the upside to this as well, all of those are being looked at.

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**Christopher Paul Tillett** - *Barclays Bank PLC, Research Division - Research Analyst*

Great, guys. That's very helpful. And then I guess just quickly for me here again. Is there anything through kind of the next several quarters that we should be aware of in terms of impacts or adjustments that need to be made, and by that, I mean, power credits or contract changes or anything small like that?

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

Yes. So that's a great question. And a couple of stats I want to put out there. Obviously, during that period with elevated pricing, receivables and settlements went up, Chris. We've collected over 90% of what was due to us. There's -- as you know, there are still some disputes that are out there, but we are working. And then that's a little bit of working capital timing. So I think through the remainder of the year, you'll see the company obviously work to close out that remaining less than 10% of the receivables. So that's one thing that could hang out there over remaining quarters.

But kudos to our credit team, kudos to our legal team. We are -- we've collected the majority of our money. And I'm very, very impressed with the diminishing -- really, it was a small impact on working capital in Q1. But that's probably something to keep an eye on for the remaining quarters as we go and try and collect the remaining 10%, which we feel very strongly in our ability to do.

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**Operator**

Your next question comes from Tristan Richardson with Truist Securities.

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**Tristan James Richardson** - *Truist Securities, Inc., Research Division - VP*

Congrats on managing a disruptive quarter. I guess just one question on the ethane side. I think you noted in the prepared comments, seeing kind of 2Q dynamics seemingly being incremental versus 1Q, particularly in the Permian. Can you talk about dynamics you're seeing today in situ as we go through the year, I guess, both in the Permian but also in the North? And should we still think of that as a potential tailwind in '21?

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

I can start. I think you should see it as a potential tailwind. We're seeing some pretty good fundamentals across the board, both on the capacity to take more ethane, both on the demand side with plastic shortages and demand coming back. So we're seeing a relatively constructive environment. And that's why, Tristan, you're starting to see third parties -- I mean we've been -- our economics have always had us in recovery for quite a while now, all of Q1, all of Q4, all of Q3. But we're starting to see the ability for third parties now to go into recovery. That's a very, very good sign. And then with some of the volume increases in a couple of our key areas, we're seeing volumes go up as well. So the demand seems to be there for the products and the supply, obviously, is responding accordingly. So hopefully, on a trend basis, as I sit here right now, I see that as a tailwind, I agree.

**Tristan James Richardson** - *Truist Securities, Inc., Research Division - VP*

Appreciate it, Sean. And then I guess, maybe at the risk of anchoring to some staler comments you guys have made in the past, I think just noting that \$50 million to \$90 million of potential upside that you guys talked about -- obviously, this was pre-storm. But with the reset of your commodity assumptions, is it fair to say that, that sort of band you are capturing today in your assumptions?

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

Yes. I think on our guidance, we did a couple of things because obviously, the deck -- Wouter did a good job of talking about the process of how we set our earnings deck coming into the year. I think what we told you guys at that time, and nothing's changed significantly, is that if you took the forward when we gave guidance, that was worth \$50 million. If you kept spot prices where they were at that time, that was worth closer to \$90 million. I think the way you're thinking about it is right. As we now sit here in May, we've been able to realize a portion of that, and hence, pretty solid Q1 and outlook into Q2. If that continues, that uplift is still there, Tristan. So if the forward hangs in, there's some uplift. If spot stays where it's at and we end up staying at those prices, should be a really strong year.

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

Yes. Just one thing to add to that. I think, overall, and we always talk about that, hey, commodity can be very fragile. And we've seen -- especially over the last 14 months, we -- I never thought I would have seen minus \$38 crude and \$400 natural gas all within 12 months. So it's a great thing. It's a tailwind. We like it. But at the same time, you know what, hard to always bank on it and assume that it's going to stay exactly the way it is here for the next days, months, quarters. So right now, it does create a bit of upside, which is a great thing, and [we'll hope] to capture it and run the assets really, really well and stay focused on our cost.

**Operator**

(Operator Instructions) Your next question comes from Spiro Dounis with Credit Suisse.

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

Congrats to Mike and Sarah on their new roles. Just a few clean up questions from me. Wanted to start with a follow-up on Jeremy's. Last quarter, you guys had provided some high-level G&P volume assumptions by basin. I believe DJ was guided up 5% to 10%. Permian flat, Midcon down slightly and then E&F -- or Eagle Ford down about 10% to 20%. So just curious in your response to him, I guess, are you saying that things are tracking better than some of those underlying assumptions? And maybe you can provide a little more granularity around the Eagle Ford and the contracts that are rolling there.

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

Okay. Yes, Spiro, so I was doing a lot of trending. So let me now gauge back to -- you're talking about the original assumptions. So I think Permian was -- started off, again, tied to our original assumptions, a little bit slower than we thought, but I think you're seeing us catch up. So I would say that on a trend basis, it's improving. In relation to where we probably would have thought earlier, it's getting where we thought at the moment. So that's where I would think about it. DJ has been pretty much online with our original assumptions. And I think there could be a little bit of upside there, potentially. Let's see how the year progresses, but we like what we're seeing there. Eagle Ford is right -- and again, all this is taking the storm out. Eagle Ford, the contracts rolled off, that was contractual. We saw that. And I would say, Eagle Ford is right on par with what we would have assumed coming into this year, and we're hanging in there.

Midcontinent, which is interesting, we had base declines, and we've seen it kind of hang in there, flat. So I don't know that we believe that carries out through the year. But so far, that's actually been slightly better than our original guidance. But I would put that to neutral to slightly better from the guidance we talked about. Having said that, again, trending off of Q1, we're seeing everything getting -- if there was some laggards, they're getting back to where we thought and maybe, maybe some potential upside in the DJ. Last thing I would say is that we were definitely lagging on the pipelines in Q1 because we were still in rejection. Again, now you're seeing that hit right back on, and we're in recovery mode, much stronger. So right back to the original assumptions that we had as we went into the year. So things are kind of getting back and leveling closer to our original guidance.

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

Got it. That's good to hear. And then just on the Eagle Ford contracts as they roll throughout the year, any particular quarter that's going to see that more than the others? Not sure what else you can provide on that front.

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

Majority of it was Q1.

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

Yes, they basically rolled January 1.

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

Okay. So that's out of the way then. Great. Follow-up question. Just thinking about bigger picture and kind of longer term, Wouter, you guys were kind of one of the early ones saying, let's pull the reins back on CapEx, and obviously, it was the right move in hindsight. At some point, just wondering if you think it's ever going to make sense to get aggressive again, maybe not to the extent of what it used to be in terms of capital spending. But I'm just curious what's going to make you invest that incremental dollar in a large sort of project at some point? What do you need to see in the market? And when do you think you'll actually ever see an opportunity like that come again?

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

It's a great question. And I've always told my team here and keep telling it and say, "Hey, I'm really looking forward to that day." But we -- you're right, we came out in 2019, and we said, we believe the market is starting to feel overbuilt, too frothy. And that's when we came out with our supply long, capacity short strategy. And just for every bump, kind of what that means is like it was cheaper for us to ramp capacity than to build new capacity because you don't want to own that last pipeline, that last processing plant in this business. So at that time, I don't think that was a deeply shared strategy with a lot of people, but I think the team was 110% right on it. Obviously, COVID accelerated things. But if you look in general, I think a lot of areas in this industry are built for 14 million, 15 million barrels a day of crude oil production, and we're quite a ways away from that.

So are there potentially opportunities on a fairly nichey basis where you can go out and say, you know what, there's a bottleneck here, and we find a way to debottleneck things and create an opportunity to put some accretive growth in, yes, we'll absolutely look at that. But I think that's fairly nichey. I think right now, if we would see very significant producer growth and let's say, prices would hang with it, in most of the areas where we play, I think we can still find plants or pipeline capacity that I can rent. And there's a lot of people that have built systems with a very, very bullish outlook that are either sitting empty now or that are partially empty, they would welcome us to put volume in there.

So I think this kind of low growth environment is definitely going to stay with us, I would say, for the last next 18 months or so. And what I mean with no growth -- with low growth capital environment is definitely going to stay with us for the next 18 months or so. Outside of that, difficult to see where things are going. I welcome, obviously, growth. But at the same time, I also think it's tremendously important for this industry to have

credibility and get credibility back with investors. This industry is going to stay around for a long, long time. Natural gas is a tremendously important part of the energy infrastructure in this country, in the world. And what we need to show to investors and to everyone that we can run a business responsibly from an operational point of view, but also responsibly from a financial point of view. And that's what we are tremendously focused on.

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**Operator**

Your next question comes from Michael Blum with Wells Fargo.

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

Wouter, maybe I want to stay on this topic. I'm wondering -- so clearly, I think everyone on this call knows that you've been front and center in terms of capital discipline and asset rationalization. But do you think the industry can get together and do this, whether it's on an asset level or corporate level or kind of along the lines of what you were just talking about, do you think the view out there is production is eventually going to catch up to all this excess capacity so there's really no reason to rationalize anything at this point?

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

Well, that's a really good question, Michael. Thanks for that. Let me try to unpack that a little bit. I think there's 2 parts to this. There's a part of broad corporate M&A to this, which I believe needs to happen, absolutely needs to happen. It's normal. If you look at every industrial type of business and industrial cycle, once you get into an overcapacity situation, normally, companies come together. That's why, hey, as part of our digital transformation, as part of our supply long, capacity short strategy, we also had this strategy of creating a lean manufacturing model, taking a lot of cost out. Because, hey, if you get into a consolidation cycle, then the ones that can take cost out, that can run lean, that can run reliable and safely are the ones that have an advantage. And that's what we were trying to do because I do believe the industry needs to consolidate. We also thought in 2015, '16 that was going to happen.

I think there's a bit of a difference between '15, '16 and today. I think the overcapacity situation is more significant today than it was in the '15, '16 time period. But there continue to be hurdles to getting companies together and like there are social hurdles, there are governance hurdles. There are hurdles around balance sheets where there's not a lot of cash buyers in this industry. So I hope it's going to happen. I think it should happen. I think it would be good in general for the industry if this happens. But it's -- is it going to happen? That's a \$64,000 question that I probably cannot answer.

I think the second part of your question is around are we going to -- are people staying disciplined. That's kind of what I think I hear you ask as well. You clearly hear from us that, yes, we want to stay disciplined. I clearly hear from the larger producers, and it goes back to the question Jeremy asked early on, I definitely see them saying, guys, we've got to stay within free cash flow, we've got to make sure that we delever, that we return capital to shareholders, that we're a good financial steward of the business and earn some credibility back. And whenever I hear that, I think that is music to my ears. Some people may say, "Hey, why don't you just wish that your producers are blowing and going?" The problem with that, obviously, is that we would be flooding the market.

So big discrepancy there, though, between the private operators that are probably looking at, "Hey, how can I crank it up really hard to maybe flip the company out," versus the public ones. So far, I'm pleased what I'm seeing, Michael, through the broader can the industry consolidate. I hope so because otherwise, what we're doing is we're competing on variable cost, and that is not going to be a good thing in a business like ours that is fairly capital intensive.

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**Operator**

Your next question comes from James Carreker with U.S. Capital Markets -- Advisers, I'm sorry.

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

Just wanted to maybe ask a dumb question, but when you talk about commercial settlements being a negative impact on the quarter, are we really just talking about basis swap hedges on the Guadalupe Pipeline? Or is it more than that?

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

It's predominantly those settlements. It could be Guadalupe or GCX, James. So that's where you have swaps that we're using swaps to manage risk on gas daily. And obviously, the gas didn't show up in some cases, and we had to settle those swaps. So that is the majority of what we're talking about there.

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

Okay. And then I believe you mentioned you collected over 90% of some of your outstanding receivables related to gas sales. Is there a dollar amount associated with that, that you could share?

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

I don't think we have. I mean here's the interesting thing, with the way the event happened, normally 90 -- normally 10%, James, is pretty small, right, because you don't have gas at [\$150]. But with gas -- with some of those settlements that are in dispute, and you can imagine, obviously, the ones that are -- or that are potentially lagging, there's multiple reasons, by the way. In some cases, people need some time to come up with the liquidity and so forth. But it's -- we haven't given a huge number, but I think it's -- I'll give you a range, it's probably below \$50 million to the company. So it's not gigantic, but at the end of the -- in comparison to maybe some others. But having said that, I am very pleased that we are confident that we'll get that, recover those dollars. And the fact that the team was over 90% very quickly is pretty impressive. So kudos to the credit team.

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

Yes. And that's helpful because, yes, I mean, 10%, normally nothing, but if 10% of \$400 in [N gas] could be more substantial. I guess -- and then my last question, you mentioned that the need for corporate M&A to happen. Any thoughts as to how you would participate potentially in that either as a buyer or a seller or your openness to either?

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

Well, probably [gone by -- too deep into that]. But here's the way I would look at that them. I'm like we've done everything to set DCP Midstream up to be a consolidator. We were on the forefront of digital transformation, and we're in our fifth year of our digital transformation journey. What we've done around cost, what we've done around safety, what we've done around operational excellence, what we've done around creating a lean manufacturing kind of profile, but we're not doing around -- reducing our emissions and things like that. And like this team has -- I think knows how to execute and execute pretty darn well. So with that said, you know what, I do believe that DCP can be a consolidator.

But we also know that, hey, there are all kind of structural things, there are all kinds of things from a governance point of view in this market, and what I kind of answered early to Michael's question, that just makes that makes consolidation difficult in this industry. But I absolutely believe it needs to happen. And the strategies that we have employed over the last number of years are all set up to be a winner in a cycle like that. And even if the market doesn't consolidate, they're still the right thing to do financially and operationally.

**Operator**

Your final question comes from Michael Cusimano with Heineken (sic) [Heikkinen].

**Michael Raphael Cusimano** - *Heikkinen Energy Advisors, LLC - Research Analyst*

Going back to the Midcon, volumes were stronger than what we expected, and I believe you attributed it earlier in the call to lower declines you were seeing. But I was hoping you could talk maybe about the increased rig activity that we're seeing there and how it's affecting your footprint or possibly how conversations with producers have evolved over the last few months.

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

Yes. I think with some of the larger producers, it's very similar to what Wouter said. But look, we're in a pretty constructive commodity environment. I still think we don't expect, Michael, to see growth there, but definitely has hung in. Again, the volumes have been more flat versus declining. That's typically what we were expecting. My gut still tells me coming out of the year, we're probably down versus the entrance rate, but I'll take it. I mean I think you've got crude north of 60, you've got gas pretty strong and you've got -- liquids been hanging in there. So it's been a slight surprise.

I'll remind you that the biggest areas where the company, and we've talked about this before, makes the majority of our returns is going to be the DJ and the Permian. We like the Midcontinent. It's a great area. Obviously, a lot of those assets feed Southern Hills. But I wouldn't consider it a huge driver, but it's a slight positive trend. We'll take it.

**Michael Raphael Cusimano** - *Heikkinen Energy Advisors, LLC - Research Analyst*

Sure. Yes, that makes sense. One more, if I can, more of just like a modeling question. When I look at the Q4 to Q1 buildup, the \$60 million from Winter Storm Uri, does that include like the net benefits from pricing realizations and maybe like cost realizations? Or would that be included in the -- I think it was the \$69 million cost appreciation quarter-to-quarter?

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

Yes. So it would not -- the cost benefits are separate. It actually includes -- if you think about that hit, it's going to include some cost hits, right? We talked about electricity and obviously, we had to run a lot of crews around overtime. On the pricing, it's a mixed bag. There's some pricing netted against that number where we can directly tie it to the storm. But then there's some pricing, to be honest, that affected the DJ and there was some pricing that continued past the exact days of the storm. We didn't get that precise. But cost, the good guy on cost is in the cost line and some of the negatives are in the \$60 million. On price, there's some of the good guy in price in that \$60 million offsetting some of the negatives. And then there's some of the good guy just in our normal business.

**Operator**

At this time, I would like to turn the conference back to Mike Fullman, Director of Investor Relations.

**Michael Fullman** - *DCP Midstream, LP - Director Corporate Development & Strategy*

Thank you all for joining us today. If you have any additional follow-up questions, please feel free to give me a ring.

And with that, thank you, and have a good day.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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