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DCP - Q4 2019 DCP Midstream LP Earnings Call

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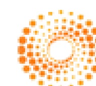

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter 2019 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. Please go ahead, ma'am.

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

Thanks, Catherine. Good morning, and welcome to the DCP Midstream Fourth Quarter 2019 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.

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 and 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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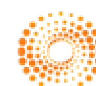

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Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Thank you, Sarah. Good morning, everyone. Appreciate you joining us for today's call. As we entered 2019, we made commitments to all our stakeholders, and we're excited to discuss our strategic execution on these goals and our outlook for 2020.

So looking to our full year results. We delivered DCF above the midpoint of our 2019 guidance range, driven by our focus on financial discipline and operational excellence, our increasing fee-based cash flows and our DCP 2.0 transformation. 2019 has been a pivotal year for DCP. We eliminated our IDRs with fair terms, ensuring complete stakeholder alignment with a minimal impact to our financial metrics. We utilized our excess coverage and almost $210 million of noncore asset sales to self-fund approximately 40% of our 2019 growth capital. We delivered on our commitment to reduce costs year-over-year despite increased charges from our voluntary separation program, new growth and continued focus on DCP 2.0. And we did all this while maintaining best-in-class safety metrics, resulting in our second lowest total recordable injury rate in the history of this company. We saw record volumes and results from our Logistics and Marketing Segment, driven by record Sand Hills, Guadalupe and Southern Hills earnings, coupled with strong NGL marketing margins. In fact, our Logistics and Marketing Segment crossed the threshold to generate more than half of our earnings in 2019, representing a significant shift in our transition to a fully integrated midstream service provider.

On the G&P side, overall volumes increased from 2018, and our O'Connor 2 bypass is online in the DJ Basin, bringing our total available capacity to 1.4 bcf per day to better serve our customers.

The O'Connor 2 facility is underpinned by minimum volume and margin commitments, which helped to increase our 2019 fee-based margin to 65%. When combined with our strategic hedging program, our 2019 fee-based and hedged cash flow was nearly 80%, reducing volatility around our business and balance sheet. These fee-based cash flows were bolstered by the Gulf Coast Express pipeline in the fourth quarter, and we expect to see earnings from the Southern Hills extension into the DJ Basin in 2020.

Finally, our DCP 2.0 transformation continues to optimize our margins and drive costs down. In addition to our portfolio-wide, real-time optimization efforts in the integrated collaboration center, or ICC, we now remotely operate 20 of our facilities from our Denver offices.

These facilities are being remotely operated and optimized by highly-skilled people to increase efficiencies and standardize our operations in a way that is unique to DCP across the midstream industry. Building on past successes, the powerful combination of our ICC and remote operations resulted in over $13 million of new margin uplift alone, exemplifying DCP 2.0's ability to drive incremental improvements year-over-year.

We also saw improved efficiencies and productivity from digitization across the organization. Coupled with other efforts, it drove a 15% reduction in headcount, all while our asset base expanded and our safety outcomes remained best-in-class. In all, our team continues to deliver on our operational, financial and structural commitments to drive our company forward and increase unitholder value.

Looking to our 2019 financial execution on Slide 5. We delivered solid results in 2019. Our adjusted EBITDA increased 10% year-over-year and totaled $1.2 billion. Our DCF of $762 million landed above the midpoint of our guidance range and represents a -- represented an 11% increase from 2018. And before we discuss our sustaining capital number, I want to note that while historically we have referred to this as maintenance capital, we believe that the term sustaining capital more accurately describes the dollar amount needed to maintain cash flows from existing assets. The metric will continue to be calculated in exactly the same way, and we will now use this term sustaining capital moving forward.

In 2019, as a result of divestitures and a growing logistics asset base, which requires less sustaining capital, we spent $83 million, just below our 2019 guidance range.

On the growth capital side, this includes all capital projects that increased volumes beyond existing base levels, and it includes well connects to new incremental volumes and large capital projects. In 2019, our growth capital exceeded the high end of our guidance range due to our opportunity to increase our ownership option in Cheyenne Connector, project timing and cost increases on some projects.

We are committed to being responsible stewards of capital, and these projects remain in our target 5 to 7x EBITDA multiple range.

Additionally, as Sean will cover within the next few slides, we're guiding to a 30% reduction in growth capital year-over-year.

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So I'll turn it over to Sean to walk you through the details of our year, the fourth quarter and our 2020 guidance.

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

Thanks, Wouter, and good morning. On Slide 6, you'll find our 2019 financial results versus 2018 and business highlights from the fourth quarter.

In 2019, we delivered strong financial results, growing DCF by 11%, while overcoming a year-over-year commodity price decline of $108 million. We generated $156 million increase in our Logistics and Marketing margin through optimizing and growing our Sand and Southern Hills earnings, capturing favorable pricing spreads within our Guadalupe pipeline asset and adding new cash flows from our Gulf Coast Express asset.

Our G&P margins were also favorable to last year, growing by $38 million, driven by a record year for our DJ Basin assets and solid volume growth from the Delaware Basin. We delivered on our commitment to driving our costs trend lower, more than offsetting increases associated with new asset growth, inflation and investments in our DCP 2.0 transformation. We're excited to announce that 2019 costs were down $22 million from 2018, and we're committed to continuing that trend in 2020 with a goal to lower cost by a similar step down.

Now turning to a few fourth quarter highlights. First, we placed the O'Connor 2 bypass into service, bringing total DJ Basin capacity to 1.4 bcf per day. Additionally, the Southern Hills extension via White Cliffs came online, providing additional NGL takeaway from the DJ Basin.

With a solid 2020 DJ volume outlook from our producers, we are already seeing good volume growth on Southern Hills in the first quarter, with continued volume ramp-up expected throughout the year.

Due to permitting delays that we have now remedied, the Front Range pipeline and Texas Express expansions are now expected to be placed into service in the first half of 2020. And finally, we executed an additional $54 million of dispositions in Q4, bringing our total 2019 proceeds from noncore asset sales to approximately $210 million.

Now moving to Slide 8. I want to highlight some details of our 2020 guidance. Our 2020 adjusted EBIT range is $1.205 billion to $1.345 billion, and our DCF range is $730 million to $830 million, translating to a distribution coverage target of 1.2x or better. Our guidance ranges are inclusive of the 2019 IDR elimination transaction that now results in total annual distribution of $650 million.

I'll point out that the midpoint of our guidance ranges for adjusted EBITDA and DCF demonstrate approximately 6% and 2%, respective growth above 2019's performance.

We're targeting a sustaining capital range of $90 million to $110 million and a growth capital range of $550 million to $650 million, reflecting in an approximate 30% reduction in growth capital for 2019. At $400 million, 2/3 of our 2020 capital program is driven by our Sweeny Fractionator option, not due until later in 2020. And with these results in our expected asset sales, we anticipate ending 2020 with a leverage ratio of approximately 4.0x.

At the bottom of the slide, you can see our commodity price targets that drive the midpoint of our guidance ranges. We set these targets in mid-January, based on the forward at that time. And we do understand that they are now higher than the current price outlook. However, even if we were to mark the current prices, we would deliver a 1.1x distribution coverage ratio. Pricing is 1 variable among many that influences our results. We are not a knee-jerk company. Rather, we're confident in our proven ability to effectively manage through challenging environments and deliver on our commitments.

I want to highlight that we delivered 2019 DCF above the midpoint of guidance despite realized commodity prices well below our target guidance. And on the right side of the slide, I highlight a few of the key assumptions for 2020. First, we anticipate being completely equity self-funded for the sixth year in a row, and we expect to be fully self-funded in 2021, which Wouter will discuss in a minute.

As I mentioned earlier, in 2020, we plan to see a continued reduction in cost, driven by efficiencies from improved reliability and continued innovation efforts to help mitigate sustained lower commodity prices.

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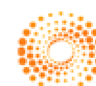

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Additionally, we're expecting solid growth across our logistics assets with -- both on the NGL and gas pipelines, partially offset by lower anticipated earnings on our Guadalupe asset as long-term well-priced contracts replace spot sales.

Finally, on the G&P side of the house, we expect overall volumes to be relatively flat, with growth anticipated in the DJ and Delaware basins, offset by declines in the mid-continent, partially due to asset divestitures.

Slide 9 shows our current fee-based margin and hedge position. Our fee-based gross margin percentage for 2020 is now 70%, underpinned by our significant cash flow, and we've been able to layer on opportunistic hedges in 2020, bringing our total fee and hedge percentage up to 79%, the highest level we've been at this early in the year.

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

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Thank you, Sean. As we start a new decade, I'll highlight how substantially this company has already evolved, and where these guidance numbers are going to take us.

In 2015, at the beginning of a deep downturn, we nearly had to radically transform our business if we were going to be sustainable in the long term. Our team has achieved significant success in executing our strategy, as illustrated by the impressive changes in our portfolio mix, growing fee-based margin percentage and growth metrics.

With our investments in assets like Sand and Southern Hills; Front Range and Texas Express, including the subsequent expansions and extensions; Gulf Coast Express and several new facilities in the DJ Basin, we have transitioned into a fully integrated midstream service provider.

Compared to 2015, we have now inverted the ratio of our portfolio mix. In 2015, 60% of our adjusted EBITDA came from G&P. And now in 2020, 60% of our adjusted EBITDA is expected to come from our Logistics and Marketing Segment.

By the end of this year, we expect to further reduce our commodity risk and balance our portfolio while driving a 21% increase in DCF and a 25% increase in adjusted EBITDA since 2017.

In 2018, we heavily invested in our reliability and DCP 2.0 transformation to drive long-term outcomes, resulting in lower base cost, all while absorbing increases as our portfolio has continued to grow.

By the end of 2020, our asset base will have increased by 7% or $1.2 billion from 2017. At the same time, we expect our costs to rise at less than half of that pace while including and absorbing inflation.

We've also rightsized and high-graded our portfolio by divesting noncore assets in places like Wyoming, Louisiana, the Northeast, the Barnett and the Mid-Continent. Across our footprint, we continue to strategically drive vertical integration and solve for broad industry needs from the wellhead to the Gulf Coast markets, resulting in an optimized portfolio, higher fee-based earnings and increased volumes and cash flows. Looking back over this journey, we have a lot to celebrate as a team.

Looking forward, though we face potential headwinds from commodity prices, we have the right strategy and the right team in place to continue our strong momentum and extend our track record of delivering strong results even in challenging times, which brings me to Slide 11. Here, I'd like to provide additional clarity in our path to a fully self-funding model.

Looking to our growth capital outlook. 2020 represents the final tranche of an almost $3 billion multi-year organic build cycle, culminating into Sweeney Fractionators later this year. We expect a 30% reduction in growth capital spend in 2020 as we bring the Cheyenne Connector, the Front Range and Texas Express expansions and Latham 2 offload and the Sweeney Fractionators online. Through continued targeted divestitures and excess cash flow, we expect to self-fund over half of our growth capital this year.

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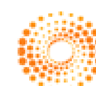

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Next year, we anticipate base growth capital of up to $150 million and sustaining capital of up to $110 million.

As we have recently shared, our 2019 and 2020 growth projects are expected to produce approximately $270 million of annualized adjusted EBITDA, of which 90% is fee-based.

So take this growth, our DCP 2.0 innovation results and potential asset sales, and we anticipate being completely self-funded, including all capital needs in 2021.

As we look to how our capital allocation model will then evolve, we will move past a primary focus on organic growth and seek to reduce leverage, return increased capital to unitholders and explore potential consolidation opportunities.

In all, we have clear line of sight to a fully self-funded model in the short term and sustained success in the long term.

So let me wrap it up on Slide 12. We know that 2020 would be a challenging environment. And with a variety of macro influences, commodity prices have already proven this thesis. Our past and future success comes down to driving a strategy built around operational excellence and sustainability, our solid financial execution and advancing our DCP 2.0 transformation efforts. In 2019, in 2016 and in 2014, our team has demonstrated a remarkable ability to execute on cost control, cash preservation, capital efficiency and a variety of other levers we can pull to meet our commitments.

At DCP a promise made is a promise kept, and we will continue to return a secure and competitive distribution. We will continue to improve the results from our asset base, and we will continue to deliver solid financial outcomes in any commodity environment. We are a much stronger company entering this decade, and we're excited to continue to drive our strategy forward to increase stakeholder value.

And I'm looking forward to taking your questions. So Catherine, please, kick us off.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question starts with Spiro Dounis with Crédit Suisse.

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

Sean, you mentioned the ability to last year exceed expectations despite, I guess, commodity being a little bit weaker than expected. And I guess, if we take a admittedly very simplistic approach and mark the current market to the tape here. It does suggest the lower end of your 2020 EBITDA guidance. And so just hoping you could expand on that thought and maybe walk through some of the offsetting variables that maybe we're not appreciating some of that analysis?

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

Yes. I think, Spiro, a couple of things. You look at '19, and we are highlighting that because at the same time in '19, when we would have given you guys the guidance, what ultimately ended up manifesting was a much lower commodity environment, and we exceeded and did very, very well. Some of the drivers in '19 are the same drivers you're going to see in 2020. Wouter alluded to a bunch of them. We aren't -- we are guiding costs to go down. We continue to focus and accelerate the 2.0 transformation. It's how we lowered costs in '19. It's how we're going to continue to lower cost in '20. Those levers can be -- price is not the only mechanism that moves and the only variable that moves in our forecast. So we'll continue to focus and drive costs down.

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We'll get some questions, I'm sure, later around maybe moving some of this sohi capital. That is not in our base plan. So that's an ability to drive some capital numbers, be capital efficient, take those numbers down.

I think what people might be missing a little bit in the models, and it's pretty overwhelming, is the amount of new cash flow that is coming on in 2020. Cheyenne Connector, full year of Gulf Coast Express, the Latham 2 offload, full year of OC 2, we expanded Sand Hills in '19. We're getting a full year of that, sohi white Cliffs growth, the cost coming down, we see some growth in some key G&P areas like the DJ and the Permian. And then Front Range in Texas Express, you'll see some growth there. Those are monumental numbers. Think about that $270 million that Wouter talked about.

So one thing I'm confident of is our ability to manage through this cycle. We're set up quite well. Even if you want to mark us to the low end of the commodity, we're still at a [1.1] or better. But I can guarantee you, we're going to deliver above that. And we proved that in '19 from all those measures I just mentioned.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. And Spiro, maybe to add a little bit to this. And like, yes, we're not surprised that people are saying, "Hey, commodity is a bit different today than is what you guys put in your midpoint." Like, we agree completely with that.

Let me at least give you a little bit of kind of insight in how the process works for us and for a lot of companies, probably it works. You go to -- as management, you put a budget together. What we tend to do is we tend to take a moment in time and that's where we take the mark and we take the forward and say, okay, this is going to be our commodity price stack. And we're not going to go above that or below that and put kind of our vision through it. We just say, "hey, what does the market tell us. And that's what we put in." We did that in early January. We go to our Board, we get our budget approved. And our budget includes commodity prices for NGL, for gas and for crude. So that's what we did. Obviously, in the last 3-plus weeks or so, some pretty significant things happened at a macroeconomic environment, including things that none of us saw coming, like a coronavirus.

With that said, we are starting and looking at that tape the same way you do. We probably -- even more than you do. And this team is not sitting still. There is a multitude of things that are happening within this company. Looking at, hey, what can we do to be more efficient. Are there certain things around capital that we can maybe move up. Are there things that we can do around sustaining capital. That's maybe even smarter. And that kind of gives us another way to kind of reduce that and be more efficient around cost, around margin, around a variety of different things that we have. And we have a lot of tools that are available to us. And so yes, I appreciate your comment and say, "Hey, we're sitting and maybe we simplistically sit here and just marked you, assuming that all else stays the same." I can guarantee you, and I think this team has proven in '14, '16 and '19, that if something goes the wrong way for us, we will find other ways, and our job it is to find other ways to continue to do things. Our job is not to swing our strategy with every price fluctuation that may be moving up or down. Our job is to effectively manage through it, deliver results, and this team has shown year-on-year-on-year-on-year that, that is what we're doing.

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

And Spiro, again, I'd be remiss if I didn't add one last thing, and it's prevalent in our slides. The company has moved more and more to fee. We're 70% this year. We were 65% last year. And we've been able to get some pretty good hedges on late last year, even a little bit early this year. So we're going in, you're saying, how do you manage through this, we're 79% fee or hedged. That puts us in really good shape as we head into 2020.

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

Understood. That's very helpful. Appreciate the feedback there. And then just on '21 Capex. It looks like a material decline again. Looks like you're going down to your sort of base level. And I guess, I'm just wondering how setting stone is that figure? I know you guys retain some optionality on bringing Bighorn back at some point if the market wants it. But is there anything else in the hopper there that could materially move '21 CapEx higher?

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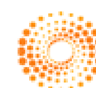

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Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

At this stage, I absolutely don't see that. I'm sure we have Bighorn that we could bring back. There's other projects. Here's the way I'm kind of looking at, Spiro, and I think we've had these discussions a number of times. There are some pretty significant overbuild in a variety of places in this country, both in the logistics side of the equation as well as on the processing side of the house. That's why you've seen us kind of do offload agreements, utilizing someone else's capacity at very attractive rates without us having to do any major capital investments. And Latham 2 is a great example of that. The offloads that we're doing in the Delaware Basin are good examples of that. So we continue to kind of look at that. And we don't want to own the last pipeline. We don't want to own the last processing plant. We like to be supply long and maybe a little bit asset short in an environment where there is excess capacity.

With that said, there's always things that you potentially could do. But the way I kind of look at that right now is probably more intrigued to do things on the logistics side, probably less intrigued to do things on the processing side of the house, unless it comes with some pretty good T&Ds and volume guarantees.

Operator

Our next question comes from Shneur Gershuni with UBS.

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

Just maybe to follow-up on Spiro's first question a little bit here. I don't want to beat a dead horse about this guide. But -- so it's clear from your response and in your prepared remarks that you understand that you've set an expectation that's kind of above where people are thinking of and so forth. In your response to Spiro, you had mentioned about the fact that just stand still and sort of assume that, that's there. But when you presented your original plan to the Board, does it include a downside-case on scenario and an upside-case on scenario on commodities and you're effectively -- you've got a plan you all ready to execute or the coronavirus shift, commodity prices change, and you're now scrambling to come up with some offsets. You seem confident about this offsets. Any sense on putting a dollar number around what those offsets could be?

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

So the -- let me start, Shneur. Wouter can talk about long-term management of the Board. But clearly, we bring in 8-Ks for approval. Wouter gave you some insight into that process. But we -- there are many slides, always it's a prudent thing around what could go wrong, headwinds, what could move the needle. And to be honest, once in a while, you even get to talk about some things that could go our way, right? So we have upsides, downsides, we have mitigating actions ready to go. One thing, and Wouter to alluded to it that this company has gotten very, very, very good at, is a proactive mentality around managing, whether it's '14, '15, '16, '19 or now '20. So we're well equipped. I think we set the company up really well. In 2020, all those projects I rattled off earlier, Shneur, are very solid projects. Those cash flows are coming online as expected. And there's things we can do. We were lucky enough to have a pretty good playbook at the end of the day. But with the Board, we definitely show the Board, some things that could go wrong, what would we do if they went wrong, what could we accelerate and so forth. So absolutely, I don't know Wouter wants to add some things.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

No, I think that's the right way of saying it. We spent a lot of time looking at upside and downsides. We don't run this company and, "hey, the world is going to be stable." We haven't seen stability, I think in the oil and gas sector for many, many years. So I think we're very used to saying, "hey, some stuff is going to potentially hit us in the face." And what are we going to do about it, and what are a variety of different things that we can do. As Sean mentioned, I think there is a pretty good proven track record around this company from making sure that we execute the playbook. We did not have to reduce our distribution like many, many others in our industry and the vast majority in the industry because they got caught by surprise. I think there's a lot of things that we're going to do good around this. I also would like -- I spoke a little bit about governance and how

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we set our budget and with the Board. Tied to that governance is how people in this company are incentivized. So the numbers that we're showing you here today, there is a lot of reasons for every person in this company to try to find a way to make those numbers because that is how they are being incentivized.

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

In -- so in some of your mitigating options, I mean, are we talking about something that can sort of be a partial offset of like $10 million, $20 million? Or are we talking something that could be in excess of $50 million?

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

I would -- it's definitely more than $10 million to $20 million, Shneur. And if you think about what we looked at in '19. Wouter alluded, with '19 from when we gave you the guidance in early '19 to where we ended up, price commodity didn't hang in. It was $100 million-plus of a negative, and those things that we were to able to execute on more than offset that. So we're not living in the world of $10 million to $20 million. Divestitures are very large numbers. You saw $210 million last year. Costs, down $22 million. A lot of margin improvement tied to DCP 2.0. In the aggregate, these numbers are large. And obviously, we -- we're focused on those every day. So we're not pulling levers that are just going to add $5 million or $10 million, and we've proven we can do that.

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

All right. Maybe as a quick follow-up question here to focus on some of the good. You have a slide out talking about how your fee-based position has changed kind of where you're at right now. I was wondering if we can sort of talk about kind of on a go-forward basis. When I sort of think about '21 and beyond, you've got the Sweeny frac coming online late this year. Is there a way to cross the 75% threshold opportunities to increase the percentage from maybe by contract negotiations? Are there economic out on acreage dedication that you can use to sort of reset? Is your asset sale program selling fee-based assets? Or you're trying to focus on selling commodity-based assets? Or are we just talking about Michigan assets. Just kind of wondering, so what levers we have that we can pull back in continue to make progress on moving you towards a fee-based and away from this line of sensitivity?

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

Yes. I think you mentioned -- your list is very comprehensive. You mentioned all of them. And those are the drivers that we utilize significantly. I mean, you look at -- Wouter, I thought very eloquently stated that we used to be 60% G&P, and that's totally, totally transformed, obviously, and now we're 60% logistics.

Going forward, all those things -- the majority of our growth is going to be fee-based that comes online. You mentioned Sweeney, but don't forget, you're getting the full year of Gulf Coast you're getting Cheyenne, you're getting growth in Front Range, Texas Express, Sand Hills, Southern Hills, things of that nature. Some of the growth in the DJ, we have fee-like components in terms of minimum. So that stuff has not fully come into fruition into our numbers. What you're seeing is a snapshot of 2020 that will continue to grow. Most of the -- I think what you're alluding to, most of the divestitures that you've seen us do tends to pull away more commodity-sensitive-type assets.

And again, we're replacing them with more fee-based assets. So if we were to give you guidance, we don't -- for 2021 and beyond around that fee number. I think you're thinking about it the right way. Substantial growth there, continuing to rightsize the company. It's interesting, '19 was a pretty significant, volatile year around commodity, and we produced some pretty stable results throughout that, even with the portfolio we have today. But all those levers are how we're going to grow that fee.

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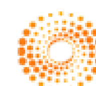

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Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

And Shneur, maybe to just one really short thing to add to that. I appreciate you kind of highlighting some of the good because there has been a tremendous amount of good things that I think the teams and the employees here at DCP have done. That's our job, trying to figure out what the good is while we mitigate the bad. And I think this team also has shown that we can mitigate the bad and turn them into good guys. And I think 2019 shows that.

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

Appreciate that. One last thing, you -- Sean, you went through my entire list, except for one. It was contract renegotiation. Is that an option that you can look at as well also?

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

That is absolutely an option. It's limited to certain areas. If you really think about where the companies moved, Shneur. A lot of the -- we did a lot of that back in '15, '16. There are still some areas, areas like the Mid-Continent, we're focused on doing that. Maybe the Eagle Ford went predominantly fee portions of the Permian. So it is, by the way, an area. The impact is not going to be as big as you saw in '15, '16. But it is one of our goals in 2020 is to continue to take commodity out of the contracts through renegotiations with our customers.

Operator

And our next question comes from Michael Blum with Wells Fargo.

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

I just had a couple of quick questions. One, on asset sales. So first -- I guess it's a multipart. I'm wondering if you can give us a sense for how we should think about just overall blended all the stuff you did in 2019, like a blended multiple that you sold at. And then on the $100 million to $300 million you're looking at for 2020. Just a sense -- obviously, you're not going to tell us what assets they are, but just general idea, are these -- are you pruning the G&P side of the business? I mean, how should we think about what you're doing there? And same question on multiples?

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. I can't give you exact kind of multiples, but -- for 2019 realized. I think what you should look at is that we find a way to do these things either at a non-dilutive or an accretive way because clearly, we found a way to sell $210 million of assets in 2019 and still beat our DCF. So we've absorbed some of that and do that.

But I think overall, we tend to go after assets that don't have a very good earnings profile for us. So the multiples tend to be a little bit higher, and it tends to kind of work in our favor. So I think in general, that's kind of what I would like to say about that. For 2020, what are we looking at in that $100 million to $300 million. I think you can fairly assume that is G&P assets. That is where we tend to have pieces in the portfolio that we like the least. But with that said, they are very, very limited assets. But if you look at what we've done over the last 5, 6 years or so, it tends to be small assets that don't -- that in many cases are older, have a cost profile that is higher for us. And where we don't have significant volumes running through. So that's why you should see it. Logistics assets, absolutely do not see us go out sell any of the logistics assets. We like those a lot. They have very, very high utilization. They tend to give us stability as well. So I would say, focus more on the G&P side of the house.

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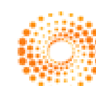

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Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay, great. And then second question is just -- so you referenced -- you show here in the slide, on Slide 6 that you took $22 million of cost out of the business in 2019. And you said it would be a similar amount and we should think about roughly a similar amount in 2020. Is that an absolute dollar figure? Or is that -- should we think about it as like a percentage of your total O&M? Or I just want to make sure I'm understanding that right.

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

The $22 million in absolute decline from '18 to '19. In terms of the similar trend, I would look at it as a percentage. We're targeting pretty meaningful percentages. And I think the impressive thing is that unfortunately, costs are not a one-way street. Every year, you have inflation, you're paying raises, you're adding some assets and we continue -- one of the big things the company has done, Michael, over the last few years is we are investing in transformation in 2.0 quite a bit. So the ability to do all of that and take an absolute reduction is pretty impressive. And I think some of that also is exponential. The more we get into the 2.0, the more benefits, the more cost will go down. So as you think about 2020, it's a similar percentage that we'll be able to reduce or at least targeting to reduce 2020 cost. And the important thing is directionally go down again from 2019.

Operator

Our next question comes from Jeremy Tonet with JPMorgan.

James M. Kirby - *JP Morgan Chase & Co, Research Division - Research Analyst*

This is James on for Jeremy. I just wanted to ask in terms of the 2020 guide. How should we think about, I guess, volume sensitivity across the low and high-end of your guidance, particularly with Sand Hills and Southern Hills as other pipes come online? And is your decision to kind of not proceed with the Southern Hills expansion this time factored into that at all?

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

I can give you a little color, James, on the volumes. Maybe I'll let Wouter talk about the strategic decision on Southern Hills.

In terms of volumes, Sand Hills, we are expecting to see growth. I mean, we added some capacity in 2019. And the only thing that took away some of those volumes, and it's an economic decision on the pipelines was, we increased -- and I mentioned this, we increased the projection side of the equation as we went through '19, but that's an economic decision. We feel very good about the Sand Hills volumes, very good about Southern Hills. I'll let Wouter talk about the strategy there. And then if you think about the regions, I think we've had a relatively conservative volume outlook. It's relatively flat for the company in 2020. There are some pockets of growth. Obviously, the DJ would be one of those. We continue to set records in the DJ through 2019. Q4 was very strong. Another really positive outlook is the Delaware or the Southeast New Mexico area of the Permian. We saw really good exit rates, and we're seeing pretty good volumes in 2020 already as we start the year.

So Eagle Ford is hanging in there. I think we would guide you to relatively flat. And then, of course, the Mid-Continent, I've talked about a couple of times, is an area we'll continue to see decline. But I'll let Wouter maybe talk about Southern Hills and the decision there.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes, James. On Southern Hills, we continue to like to project a lot. But you got to look at this all about capital efficiency, not overbuilding, us not want to own the last 5, the last processing plant and the same theme that we've been talking to all of you a lot about in the last year or so.

So if you think about when we started talking about this Southern Hills extent -- or expansion. It was really kind of somewhere in the third quarter or so of last year.

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Subsequently, you saw us announced the Latham 2 offload and not moving forward with the Bighorn facility. If you think about how we look at kind of overall kind of takeaway capacity out of the DJ Basin. Originally, we were looking at things like, "hey, Bighorn was going to go out there. Latham 2 going to go out there. Between the 2 of them, you maybe have 50,000 barrels, now one of those is not going to get built." So you're basically generating 20,000 or 30,000 barrels of space of takeaway capacity out of the DJ Basin. Then you take a look at ethane rejection environment. And we kind of look at things and say, you know what, ethane rejection is going to probably continue to be here for quite some time, given where we are from a commodity point of view. So take all of that together and you say between the Front Range and the Texas Express or some extension or expansion between the Southern Hills expansion in the DJ, we don't need it right here, right now. So why build it? Why don't we put it in backlog. We wait a little bit. Maybe we wait a year, and then we build it and we take it from there. This has absolutely nothing to do with our volume outlook on what we expect the things to come out of the DJ Basin. That still looks very, very good to us. It really is about -- certain plants are not being built, that creates capacity in the system. Ethane rejection creates a capacity in the system. Then if that's the case, why go out, why spend that money now, let's be capital efficient.

James M. Kirby - *JP Morgan Chase & Co, Research Division - Research Analyst*

That makes sense. And then you touched upon it, but just the the ethane rejections. In the $0.48 price assumption you guys have, is there a factor level -- is there a factor of ethane reduction in there?

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

Yes, even at the level -- even in our assumptions, James, assume -- we exited the year at the highest level we were at in 2019. And we've -- in our models as we look at 2020, we have -- we're staying at those levels. So we're at pretty high levels of rejection, to Wouter's comments. That is even baked into our target prices.

Operator

Our next question comes from Elvira Scotto with RBC Capital.

Elvira Scotto - *RBC Capital Markets, Research Division - Director & Chief Analyst*

Wanting to follow-up on the asset sales for 2020. I guess, have you already identified the assets? Where are you in the process of selling? And does any of the guidance that you provided incorporate asset sales?

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

So asset sales are not incorporated. We think that asset sales -- you never know if you can pull them off. So that's why we don't put them in the base forecast. It's upside only, the same way for 2019, upside only. That's kind of our philosophy because hey, you never know if you're going to have buyers and sellers meet at the right price. So are assets defined? Absolutely. Are we working things? Absolutely.

Elvira Scotto - *RBC Capital Markets, Research Division - Director & Chief Analyst*

Okay. Yes, that makes sense. And then on your sustaining CapEx, I think -- I guess, you did $83 million in 2019 versus your original guidance, I think it was $90 million to $110 million. In 2020, you're providing that same guidance of $90 million to $110 million. Can you just walk through that sustaining CapEx number, why that hasn't changed versus your 2019 guidance?

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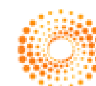

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Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

So I think a couple of things. We have added some assets, albeit, they are newer and they're more the pipeline-type assets, which tend to have a little bit lower on the maintenance front. But Elvira, we have some seasonality. There are some more components to that. Maintenance through that sustainability capital that's tied to regulatory, that's tied to some safety projects. So I think we have a little more slated in 2020 than what we had in 2019.

One of the reasons we were able to bring that number down significantly in '19 is some of the asset sales. We are getting better. Wouter talks about a lot of this new technology that we're utilizing on our assets that gives us the ability to be much more intelligent about where are we spending money, where are we putting the money, can we get ahead of catastrophic failure because that saved us a significant amount of money. But the guidance ranges would have gone up a little bit, I think, primarily due to some investments and some things that we have slated in 2020, tied to just our traditional EH&S-type program.

Elvira Scotto - *RBC Capital Markets, Research Division - Director & Chief Analyst*

Okay. And then just a -- I guess, a bigger picture question. When you talk about capital allocation, you list organic growth, reduce leverage, return capital to unitholders and then potential consolidation. Can you expand on that a little bit, especially around potential consolidation? Is that asset acquisitions? Or DCP acquiring a business or a company? Or DCP selling itself?

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Well, that's a lot fairer, Elvira. Let me take one thing kind of off the table. You're not going to wake up 1 day and see DCP is acquiring someone else for a big multiple. I guarantee you that, that is not what is going to happen. But what we're doing, and we've spoken a lot about what we're doing around our transformation is making this company and creating this kind of lean-manufacturing model being the safest, most reliable, local midstream service provider. Because this industry, like -- unlike other industries, has always lifted on, "hey, what is my next growth project? What's my next growth project?" And we know that, that super cycle of growth is coming to an end. We saw that coming internally. We've been talking about it since 2017, since 2018. That's why we started this digital transformation. That's why we're trying to make company, a lean-manufacturing model. In the end, what you can do with that is you hope that you're more efficient than other people, and you can potentially fold assets in there. And that's what we're talking about. So we're talking about, "hey, can you apply what we have and change that -- and fold other companies or assets within that model and be more efficient and get synergies that way." Do not expect, again, I want to make sure that you're not -- do not expect to wake up and see DCP Midstream is buying one of their neighbors at a 30% premium. I can guarantee you that is not what you will see.

Operator

Our next question comes from Chris Sighinolfi with Jefferies.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Sean, just curious if you could help me understand Slide 14 a little bit better. You made a change in how you're portraying some of the hedge positions. Mostly I'm focused on just the use of the phrase, targeted average hedge price for the NGL front. And I'm just -- I guess I'm wondering two things. How do we interpret if prices are different than your target? And does that change any of the sensitivities you provided in the financial guidance? Just any help there.

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

I think -- and kudos, Chris, for picking up on that change. But where we have hedges, we're trying to show you the prices where we have substantial hedges in place. What gets a little complicated is with crude and with gas, it tends to be very straightforward.

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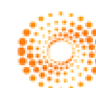

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Obviously, on the barrel for NGL, we're not -- there are opportunities sometimes to hedge the heavier rent because it correlates with crude a little better. Maybe there's a run in propane, we can go out and get those. So -- and we don't have a significant amount of those hedges out in place. So we're just trying to show you our target versus showing you the composite. Where one particular price would be. We don't think that's, that helpful. You need to really look at the total composite barrel and where our targets are. So that's why we have that change on there.

If we get the opportunity to get some additional NGL hedges on, we could maybe modify it a little bit. But we didn't want to be misleading by just showing 1 element or 1 component of the NGL barrel. And they would have no change on the sensitivities, I don't believe.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Okay. And so the volumes you list there, are those actual hedge positions you hold today? Or does that include some target hedges for the products not yet hedged?

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

No, no, those are actual. Those are actual in -- and again, we saw some run up on a couple -- a few of the components of the NGL barrel, we were able to go out and get some hedges on either late last year. But it's -- we're trying to give you a good proxy of where and if we continue to have hedge where we would be on a total NGL composite perspective.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Okay. If I switch gears a little bit and think about it, I guess, in context of commodity, you had an earlier discussion with Spiro and Shneur about it. It seemed like levers that were available to you that you could pull, that would be supportive to your financial performance in a low price environment. And I guess, I'm wondering if I understood that correctly? And why those would be levers you wouldn't always be pulling? Or why they're only available in a low price environment? And then, I guess, maybe flipped oppositely, Sean, like what gets you to $1,345 million in EBITDA for the year. What needs to happen from here to achieve that level?

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

So the top end of the range, clearly, always has some price elements, right? I mean, so that's only 1 component. But again, if you think about the levers that we're pulling, we're always working on improving the business. We're focused on cost. You look at the core guidance, Chris, there is cost reductions.

In terms of -- can you go harder at things? Can you move quicker? When we look at '19, and we keep reiterating this, we saw some pretty dampened prices in '19, and we didn't hit the low end of our guidance. We were able to hit above the DCF guidance and pretty close to the EBITDA. And those -- there is always yin and yang. I mean -- just one variable can go down. Sometimes there's positive outputs or outcomes from a commodity going down. Sometimes, there's things that we're going to drive a little bit faster, give us the opportunity to move some things in a little bit quicker, get some projects online a little bit quicker. These are all the same levers that we pulled that accelerated our base case in '19. And as Wouter said, we did not become aware that prices in the current environment were below our midpoint when all the reports came out yesterday. We were watching that pretty closely. We're aware of it. Assume we're working on other levers or accelerating things that we were working on anyway to help us mitigate through this environment.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. Chris, I think your question is around, "hey, are you guys shipping still when prices are good, and then now you feel you need to run hard." I think before this call, I looked at gas prices and crude prices, they were up 3.5%. So are people taking their foot off the accelerator today? No, absolutely not. And like, this happens every day, we see these big swings and like this has been a big commodity swing industry for quite some

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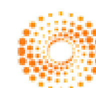

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time now. And you know what, our job is to continue to, a, execute our strategy and keep focusing on. Executing the strategy and not go -- when every price fluctuation up or down kind of start changing the pace. At the same time, we've seen some pretty significant movements here. You see some pretty significant macroeconomic things happening, kind of starting around middle or end of January, and that obviously gives you kind of some high scrutiny around, "hey, what does that change in a macroeconomic level from a supply-demand point of view." things like a coronavirus and therefore, "hey, are other levers that we can pull or should we pull harder on certain levers."

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Okay. No, that's helpful. I mean, I appreciate -- I think we all -- last year, we're sort of reintroduced the Guadalupe pipeline that you guys have and the contribution there was obviously quite spectacular relative to, I think, what was built into your base plan. So I appreciate it. I think others appreciate that there are elements of your asset profile that do provide sort of internal hedging on either basis or price. But I guess, thinking that, that was more of a hedged out scenario going forward that maybe you'd have less flexibility now. So that was really the thought and the spirit of the question.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. And here's the way I look at it, Chris. I don't underestimate the creativity, the flexibility, the tenacity of our team to find, "hey, what's the next Guadalupe? What is the next thing that we have that we didn't think about or that kind of went our way." Because many times when stuff -- things go against you. There's something else in your broad-based portfolio that actually may go -- create a little bit of a tailwind. So our job is to kind of find those, to work those and to work really hard. And as I said earlier, 2200-plus teammates here at DCP are highly incented to get to the numbers that we showed you today.

Christopher Paul Sighinolfi - *Jefferies LLC, Research Division - MD and Equity Research Analyst*

Okay. I do have one final question, if I could. And that's just -- I look at Slide '19, and I look at the capacity that you list in the G&P regions, it looks like processing capacity in the Mid-Con came down about 210 million cubic feet a day , I think, quarter-on-quarter. And I'm just curious, the footnote indicates you list only active plant capacity. So I guess, I'm curious, Wouter, was that a plant idling? Was that part of the asset sales you've already done? Is that part of the potential sites that you're contemplating? If you could just help me.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. Some of -- yes, let me -- yes, I'll have Sarah, get back to you with the exact details, but my assumption would be between Rock Creek, between Ladder Creek, between another plant that we shut down. The [gathering] system divestiture, I would say that is most likely what is driving that, but Sarah will confirm it for you.

Operator

Our next question comes from Gabe Moreen with Mizuho.

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

Most of my questions have been asked and answer. I just wanted to ask about pref issuance potentially for this year? And how you're thinking about it, just to a large extent, is that dependent on how well the asset sales may or may not go?

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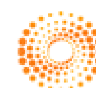

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Sean P. O'Brien - *DCP Midstream, LP - Group VP & CFO of DCP Midstream, LLC*

It's not totally depending on the asset sales, Gabe. But we do look at the pref market. It started pretty strong at the beginning of this year. So we've seen some positive transactions. It is a lever. It's one of the levers we will stay focused on.

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

Okay. And then just one quick follow-up for me. In terms of a follow-up to, I think, Nicole's question on M&A. And I think, Wouter, you said that it's heavily going to be concentrated on G&P. Clearly, there was an asset that you own part of which trades hands in December for what looks like a really nice multiple. Did you contemplate maybe piggybacking on that? And if you got some sort of similar multiples like mid-teens EBIT, EBITDA, would you ever part with L&M assets or -- yes, that's my question.

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

It's -- I think one thing that's really interesting -- and I don't know who yesterday wrote is that there is a bit of a discrepancy. And if you look at how we're trading. And while you sit there and see the implied valuation, if you give a market valuation to L&M on our portfolio. And then what would the implied valuation be given where we're trading at, and our valuation is G&P would be trading really, really low in comparison to other people. And 1 way to maybe crystallize that is to sell an L&M asset. If we like that L&M business, and we think it is -- we've worked really hard, we showed you how we moved that part of the portfolio, sure, you can piggyback in trying to sell something. And is that going to crystallize the value of the overall logistics business? I probably don't think so. The other thing what it does is, is really it's going to make you more G&P centric once again. And I don't think that's what we want. So yes, we looked at that. We think about that, but probably, not likely.

Operator

Our next question comes from James Carreker with U.S. Capital Advisors.

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

Just a couple of housekeeping items. I think you guys have a $600 million debt slug due next month. Any color on how you're looking at that?

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

Good news is, James, we don't have any towers throughout the period. We do have that maturity coming due in Q1 of this year. Markets are good. Our debt's trading well. So things are looking pretty good on that.

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

So your expectation is to do an offering or cover with the revolver?

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

Yes, we have got a lot of options on the revolver and ultimately, doing yield covering with an offering. Sure.

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

And then you guys mentioned Guadalupe earnings are down as some of these contracted rates start kicking in. Do you guys have a duration for what the average contract is on Guadalupe? And I guess -- well, I'll just leave it there.

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

Yes. So the good news is we -- these contracts tend to be 5 years. These -- and then those options were not available historically. They're not at the spike rates, but they're at very, very strong rates. So we've turned that asset into a very strong annuity, a fee-based annuity that will be with us for 5 years. I think that's a -- that was a terrific play.

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

No, I appreciate that color. And then, I guess, one last item. You mentioned, Sean, earlier I believe, even at the low end of your guidance would provide for 1.1x coverage. But obviously, that does hit more so, I guess, some of your leverage metrics and whether you use your bank metric or an all-inclusive debt-to-EBITDA or something -- some metric that includes the press. It is -- it does creep up a bit. So just wondering how you're kind of thinking about that? Do you pay attention to the other metrics? Or is it just kind of this bank revolver calculation. Because it certainly seems like you want to bring it down, but there are certainly some headwinds facing the business.

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

Yes. So a couple of things. We did say -- so yes, we are focused on the bank -- bank's very important, but we -- every slide I have, James, has all the 3 rating agencies on it as well. So I'm staring at all of them. And one thing I want to remind you, the 1.1, that just says, hey, we take the current spot, the company does nothing to mitigate that. That is not going to happen. We're very focused on our levers. We're focused on our coverage. As Wouter said, the distribution is safe. And we're all incentivized, as he mentioned, to drive and deliver these results, which are pretty strong. So I do stare the other metrics, assume we're going to mitigate a bunch of that.

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

Yes. I only ask because I think consensus for investors is that coverage is becoming less and less of a focus, whereas leverage and free cash flow generation are the next new thing. And so to the extent that those are metrics that you guys follow...

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes, we -- I don't really agree with you. And James, obviously, we do, I'm like, and that's why we gave you guys some outlook and say, "hey, where are you going in 2021?" And, a, this company has been significantly free cash flow positive in kind of a traditional way of talking about it. The way we look at free cash flow positive is after paying the distributions, and we see that we're completely, fully self-funded, pay the distribution, pay our sustaining capital, pay our growth capital in 2021. And I think that is a great, great outcome.

Operator

And our next question comes from Tristan Richardson with SunTrust.

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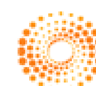

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Tristan James Richardson - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Appreciate all the commentary and perspective. Just on Sand Hills, your comments around growth, appreciate that. Just thinking about the contract portfolio. We think of maybe some of the movements in '19 is somewhat one-off, but particularly with new contracts associated with expansion. Can you talk about average tenure today? And if there's any upcoming recontracting or short-term deals that may come up in the near term?

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. No, Tristan, it's Wouter. Appreciate that. Our -- and I think we've been fairly open about this, the largest contract that we have on Sand Hills is with ourselves, DCP. We have some pretty good insight in that. The second largest contract is going until the mid-2030s. That's a very, very significant contract. And then we have a slew of contracts that go until the middle of this decade. So other short-term deals that we do at times, everybody is doing those but we do not see any recontracting risk. The kind of average duration of our portfolio is quite lengthy, deep until this coming decade.

Tristan James Richardson - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Very helpful. And then just a quick follow-up. You guys talked about in your slide sort of assumptions for 2020, it was potential benefits of any shift to ethane recovery. Is that a potential driver in 2020 towards the high end of the guide or just kind of framing that up?

Wouter T. van Kempen - *DCP Midstream, LP - CEO, President, and Chairman*

Yes. So what Sean, I think, mentioned earlier is that we do not have any kind of benefits from additional ethane recovery into our current guidance that we have. So that is truly as an upside.

Operator

And I'm showing no other questions in the queue. I'd like to turn the call back to Sarah Sandberg for any closing remarks.

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

Thanks, Catherine, and thank you to everyone for joining us today. If you have any questions, please don't hesitate to reach out.

Operator

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

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