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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Q1 2020 DCP Midstream Earnings Conference Call. At this later, we will conduct a question-and-answer session, and instructions will follow at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Sarah Sandberg, Senior Director of Investor Relations. Please go ahead.

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

Thank you, Carol. Good morning, and welcome to the DCP Midstream First Quarter 2020 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 in schedules in the appendix section of the slide.

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.

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

Thank you, Sarah, and good morning, everyone. We appreciate you joining us, and I hope you're all safe and well. Our thoughts are with everyone affected by the COVID-19 crisis. On today's call, we will discuss how we're managing through this extremely challenging environment for our industry, our first quarter results and an outlook for the remainder of this year.

I want to first say thank you to team DCP. We're navigating through an extraordinary few months, and we've remained healthy, safe, reliable and connected. Despite incredible disruptions to daily life and stress due to COVID-19, you have delivered one of our best quarters and have responded to this environment with agility, resilience and innovation. So thank you for everything that you've achieved during this exceptional time.

To our long-term investors, I want to also say thank you for your commitment to DCP. This environment is entirely unprecedented. And while we do not know how it will play out exactly, we are committed to transparency, operational fundamentals, safety, efficiency and long-term stability.

Looking to Slide 4. Our multiyear strategy to evolve the company has established a strong foundation for the challenges that we face today. Our company has evolved into a fully integrated midstream service provider with a disciplined capital allocation strategy and an industry-leading digital transformation. Today, our core values have guided our response to COVID-19.

Our first priority is to ensure the health and safety of all of our stakeholders and to maintain safe and reliable operations. Additionally, we have moved extremely fast to mitigate the effects of the current global demand destruction that is impacting our industry. We have optimized over $900 million of cash with the sole purpose of strengthening the balance sheet, and our efforts have already paid off in the first 4 months of the year. We have adapted our strategy and narrowed our focus to ensure we're well positioned to emerge from this downturn stronger than ever.

As I just mentioned, ensuring our stakeholders are protected and supported has been central to our COVID-19 response. On Slide 5, you'll see the approach we've taken with our employees, our customers and communities over the past few months. We're currently executing our pandemic response plan to maintain increased communications and alignment while creating healthy and efficient work environments for all employees.

To maintain safe, uninterrupted and quality customer service, we are relying on our ICC and are in extremely close communications with our customers to ensure operational and volumetric transparency and alignment. Finally, we know our communities need us now more than ever, and we've upheld our approach to community outreach and investment.

On Slide 6, I want to highlight how the diversity of our company and our multiyear transformation have strengthened our stability and outlook. Our operations are positioned in the country's premier basins, and our distribution of volumes protects us from potential single basin or customer impacts. Our broad and interconnected footprint also gives our marketing team the ability to manage through constraints and market dislocations.

Our cash flows have changed substantially over the past decade as we transition to a fully integrated company with a majority fee-based earnings platform, providing increased stability within our cash flows. Additionally, our top 50 customers who represent over 80% of revenue are well diversified. 74% of our top customers are investment-grade and within the producer segment, 73% are super majors with A ratings. Our contract structure contains adequate assurance provisions. And we hold a net payable position with producers, minimizing our credit exposure.

Looking to our transformation, nothing is more critical than safe operations. And the past 2 years have represented our best safety outcomes in the history of the company.

Next, our DCP 2.0 transformation effort allows us to not only take cost out of the system early through automation and digitization. It has allowed us to better optimize cash flows, enhance flexibility and speed within the organization and perform operations completely remotely, including currently operating 20 gas processing plants from employees' homes, which truly gives us an advantage during stay-at-home orders.

We've also made massive strides in our cost and capital allocation strategy, both before and during this pandemic, focusing on mitigating overbuild through utilization of third-party offloads and strategic growth in low-risk basins.

Starting in 2015, we began to strategically eliminate costs, which has recently been accelerated to make our cost structure as efficient as possible.

Finally, our true strength lies in our people. And we've been focused on fostering a world-class culture to motivate, engage and retain our top talent. In all, these components fortify our company and allow us to manage this downturn from a strong foundation.

Now turning to Slide 7. You'll see the strategic actions that we've taken. In early February, as commodities began to decline, we established a cross-functional task force to systematically identify cost and capital reduction throughout the company, which gave us a head start when the coronavirus later emerged as a global threat. Over the following 2 months, as WTI prices dropped substantially and demand collapsed, we announced over $900 million in optimized cash flow through a 50% reduction of the distribution, a 70% reduction of our sustaining and growth capital including the deferral of our option on the Sweeney fractionators and over $90 million of cost reductions. These actions not only position us well to manage through this downturn by increasing our liquidity, they also demonstrate the flexibility and speed of the DCP model.

And though we have acted on some very draconian assumptions, should market conditions deteriorate beyond our current scenarios, we maintain optionality on several additional cash flow levers. These include our ability to utilize our integrated system to optimize producer netbacks. This helps to ensure that when customers make shut-in choices, DCP can offer competitive rates to keep volume flowing on our system. We're also considering consolidating assets or facilities, which would have associated cost reductions.

In a further dampened environment, we would expect lower sustaining capital as volumes can decline and lower cost as we further prioritize our maintenance spend. And additionally, we maintain $325 million of dry powder within our remaining distribution.

In all, despite these unparalleled dynamics, we remain very confident that the outcomes of the actions we've taken and those at our disposal will ensure long-term success.

Now to talk through our Q1 results, our outlook and financial position, I'll turn it over to Sean.

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

Thanks, Wouter, and good morning. I want to send my thanks to our frontline health care workers and our operations employees and take this opportunity to thank our corporate employees, who despite working from their home offices, didn't miss a beat in getting our books closed, implementing in-depth scenario planning and supporting our business.

On Slide 8, you'll find our first quarter financial results, which demonstrate the strong earnings power of our assets and an outlook into the second quarter. In Q1, we generated adjusted EBITDA of $321 million and DCF of $220 million, resulting in leverage of just over 4x. Our results were driven by our early proactive execution on costs and sustaining capital reductions, which resulted in the lowest quarterly cost outcome in the history of the company.

Results were also driven by strong margins and volumes from our Logistics segment. NGL pipeline throughput was up 13% from the fourth quarter, partially driven by a full quarter of the Southern Hills extension. Additionally, in our G&P segment, we had record volumes in the DJ Basin and strong volumes in the Delaware. Commodity prices were unfavorable primarily driven by March declines and were partially offset by favorable hedges. Based on the unprecedented demand and price declines and other factors, we identified and recorded $807 million of total impairments for the first quarter.

Looking to the second quarter. Volumes in April were generally in line with the strong volumes we saw in Q1. Although the quarter is off to a good start and we will continue to benefit from the proactive cost and capital savings actions we took early in the year, we know that the remainder of the second quarter and the second half of the year will rely heavily on our volume outlook, which brings me to our next slide.

First, we have withdrawn our original 2020 comprehensive guidance given on February 12 due to significant and ongoing changes to the commodity and demand outlook for 2020. We're providing substantial guidance relevant to our outlook on capital, costs, liquidity, volumes by segment and region and sensitivities. We've adjusted our sensitivities to reflect the impact of lower volumes.

And in addition to the actions that were just discussed, we have modified our year-over-year outlook as follows. We're now anticipating that each region will endure volume declines of around 10% to 15% with peak declines likely to occur in late Q2 and into Q3. North volumes will be flat as a result of a full year of the O'Connor 2 and the Latham 2 strategic offload. And I want to remind you that we have minimum margin and volume protections on our newest plants in the DJ. Permian volumes are projected to decline approximately 5%. And the South is expected to decline approximately 15%. The Midcontinent will experience the most severe volume declines, now estimated at 20%.

Looking to our Logistics segment. Average NGL throughput will decline by about 10% to 15% on Sand and Southern Hills. On the gas side, our Gulf Coast Express and Cheyenne Connector investments are both fully subscribed and 100% take-or-pay. In anticipation of this reduced volume outlook, over the past several weeks, our operations, commercial and finance teams have considered a wide variety of outlooks and options, and have established detailed proactive plans for each region within our portfolio in response to the weakening supply view. Each plan dictates triggers for actions based on volumes, operability and financial impact and includes potential plant consolidations, recalling offloads, ICC optimization and furloughs. These plans will be quickly rolled out on an as-needed basis as volumes decline within our portfolio.

Slide 10 shows our current and expected year-end liquidity and details on our outstanding debt. Currently, we ended the quarter with approximately $600 million of liquidity. And our $1.4 billion revolving credit facility is backed by our long-standing partnerships with 16 leading global financial institutions, the majority of which we also share banking relationships with our owners. In December, we proactively extended the facility out for 5 years.

As we generate free cash flow, our cash position will grow throughout 2020, and we anticipate exiting the year with over $700 million of liquidity. Our next maturity is $500 million of senior notes due in late 2021, and we expect to have sufficient free cash flow to retire this debt without needing to access the capital markets.

Now I'll turn it back over to Wouter.

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

Thank you, Sean. So wrapping it up on Slide 11. As we look to the rest of the year, we continue to prioritize the well-being of our people and our company. Our margins are majority fee-based and 37% of our total equity length is hedged for 2020. We've executed a disciplined capital allocation strategy focused on being supply long and capacity short, and we're partnered with a well-capitalized base of customers.

We stepped forward with a very strong Q1 and a solid start to Q2 as evidenced by April volume results and the outcome from our meaningful reductions in capital and costs. Ultimately, you've always expected and seen reliable strategic execution from DCP. And we will continue our proven track record of effectively managing the cycle.

So before we turn it over to the questions, we want to end our remarks the same way we started, by thanking our employees. We've put forth an absolute tremendous effort to ensure the health and safety of our workforce and the quality of our operations during this crisis. And we couldn't be more grateful, so thank you.

With that, I look forward to taking your questions. And Carol, please kick it off.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Gabe Moreen.

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

Okay. Appreciate that it's difficult to give EBITDA guidance in the current environment, but I just wanted to confirm something I heard you say about around pulling additional levers only if the environment deteriorates from what's laid out in your guidance. Did I hear that correctly?

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

Yes. You heard that correctly. I think what you heard from us and seen from us, Gabe, is that we bought a tremendous amount of levers in March already and even before March, in January and February, because obviously the cost results and the capital results that you've seen in the first quarter, you can't do that just in the last 10 days of the quarter. So all of those were well underway already. But yes, you're right on your point.

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

Great. And then one of your peers this morning with earnings announced that they had bought back a decent amount of debt in the market at a discount to face value. Just wondering if that's under consideration on your end, considering the focus on delevering and free cash flow use.

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

Yes, Gabe. We've absolutely -- this is Sean. We've looked at that. We've got the 2021 and there are some out-years. In the short run, we've been focused on liquidity, in ensuring that the company has liquidity. The 2021, as these markets show some inefficiencies and give you the ability to pull them back at a discount, we have looked at that. That's something that we definitely keep on the plate. We haven't done it as of yet, but we are considering it. But remember, liquidity short term, current is our primary focus.

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

And just to clarify there. There's nothing technical in your credit revolvers or discussions with the agencies that would prevent you from buying back debt in the market?

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

No. There's -- and I'm glad you brought that up, Gabe. There's nothing that would prevent it. I will tell you, we've looked at this over the years obviously when you see disconnects in the markets. Some of the -- it always depends on the extent that you're pulling back. The RAs tend to have some negative implications if you're going out and trying to take the majority of a maturity, and I think the duration, too.

If you're taking a shorter-term maturity, it tends to be less of an issue with the RAs. If you're going out and, say, taking a 25 or a 29 and you're doing the majority of it, they can have some implications with the rating agencies that they don't like. But those are things that we're considering.

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

And then last one for me is just in terms of the hedging strategy going forward. And I guess maybe curious about or in terms of some of your macro thoughts in the whole, maybe associated gas and impact on NGL debate. Just how you're approaching it, considering forward curves for nat gas have moved up pretty considerably over the last couple of weeks. Just your thoughts there.

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

I can start with hedging, and I'll let Wouter talk about the macro, Gabe. But obviously, we're significantly hedged this year, in 2020. Our strategy has always been a multiyear. When I say multi, we've gone out as far as 3 years on hedging. And I'll remind you, one of the reasons we had such a strong Q1, the business has moved -- continues to move in a significant way to fee. So between the fee movement in the downstream and the hedging strategy, it's proven to be quite beneficial for the company.

I will say, we have seen some opportunities. You talk about the disconnects and the associated gas, and Wouter will give you some color there. But gas has actually strengthened a little bit. We're seeing propane and ethane strengthen a little bit. So the reason I bring that up, that gives us the ability to get some hedges on obviously for the remainder of this year and next year.

Last point, we're fairly well hedged on gas in 2021. And again, expect our fee percentage of this business to continue to grow. So the company is in pretty good shape. Hedging strategy has been very beneficial for us.

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

Yes. Maybe to add, Gabe. It's difficult to give macro thoughts when we're in an environment where you continue to see daily changes and pretty rapid changes kind of just to the entire complex both on the supply and the demand side. But I think in general, like many others, we're fairly constructive on pricing a little bit further down the curve, obviously not for 2020 but especially if you -- kind of second half of '21, '22, were fairly constructive around what we're seeing on prices.

So I think Sean was pretty clear around what we're trying to do, unlike the volatility is still pretty unprecedented. If you just look at like one component of the NGL side, seeing how you look at ethane and you look at what happened in just the last 7 to 10 days alone, there's probably a 250% move in just ethane.

So with that, I think if there's some opportunities for some small products for us to kind of add to the hedged portfolio, we'll do it. But our duration is probably -- we're not tremendously excited right now about locking in things like crude or other things or gas very far down the curve.

Operator

(Operator Instructions) Your next question comes from the line of Spiro Dounis with Crédit Suisse.

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

I want to start off with some of the inputs around the volume outlook, if we could. Just wondering if you guys could walk through maybe how you arrived at some of those levels and how much you risked input from producers, specifically looking at you're targeting, I think, a 5% decline in the Permian year-over-year, which maybe doesn't appear conservative enough on its space but I think that actually does imply a 20% exit rate decline. So I guess am I thinking about that right? And once you can, just help us think about how you arrive at some of these inputs.

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

Okay. I think you are thinking about it right. Let's talk about how we arrived at it. You could assume, Spiro, in times like this, we're always communicating pretty heavily with our producers through our commercial groups and our executives at that level. I can tell you -- I'll give you an interesting data point. The CFOs of this company and myself have started significant conversations, weekly in many cases. And I know Wouter has been talking to a lot of the CEOs. So in terms of the process, the communication has been stepped up as you can imagine, massively.

We -- I alluded to it in my remarks. We're running a significant amount of scenarios and that's where we're at right now. We're running all of these scenarios, significant inputs from producers. But as I alluded to earlier, those change on a daily basis. But we're taking that input, applying it to what we see. And that's where the tough part comes. I mean we had a very good volumetric Q1. You listened to Wouter and my comments. April hung in there very well.

So we're anticipating obviously with everything that's happening on the COVID demand side, with what's happening on the supply side, that we're going to see some declines. And the numbers I gave are a representation of all those additional inputs, looking at real-time inputs. There was a period when people said, "Hey, April is going to be tough." You've heard Wouter say, "April, actually, was pretty good." And then he can give you some color from what he's hearing.

Things continue to move out. But I think we wanted to, one, give you some color that we do anticipate declines, obviously. We've pulled all these levers in anticipation of a very difficult environment. And I think we wanted to give you the context of in the discussions and the economics that we hear from the producers, i.e., DJ economics are very strong still. Delaware economics are strong, Midcontinent, not as much. Eagle Ford kind of in the middle. That's why all those inputs are what build my commentary on the call and what we're sort of guiding to you, too, right now.

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

Yes. And then maybe, Spiro, to add to a couple of things here is it's also a very individual, producer-by-producer or midstreamer-by-midstreamer kind of case. I give you -- I can give you examples, and I mentioned it a little bit in my prepared remarks, where we have producers come to us and say, "Hey, we think we need to start shutting in a significant amount of volume." And we worked with that specific producer. And we're able to work with them based upon our integrated kind of service offering where we say, "You know what, we can probably provide you a better netback if you kind of keep things flowing on our systems." And the net result of that was that some significant volumes stayed on our system and we're taking up someone else's system. And it's things like that where you're trying to optimize a variety of things.

The situation is it continued to be a pretty kind of dynamic environment as we all know. On the one hand, we don't know really what's going to happen from a demand point of view, when things are starting to open up. Then we have storage situation for producers that are trying to figure that out. If you were asking me in March, we probably would have expected some volumes to come off in April, and they didn't at all, great volumes. You're now sitting here today. Volumes are very solid still. But you talk to producers and they're sitting in saying, "Hey, yes, we're absolutely seeing things happening in May. We're probably now seeing things happening a little bit more in June."

So you have this continuing kind of 8-week cycle that we're in where producers keep pushing this thing back a little bit. And obviously, that is a really, really good thing for us. The longer you keep things on the system, the better it is and the more likely that, as a country and as a global economy, we're actually starting to go back to work, start to drive again, start to consume. And that would be very helpful. But it continues to be a dynamic situation obviously. But it's -- I think things are being managed quite nicely right now for us.

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

Yes. I can appreciate that. Making predictions in this environment has been a humbling experience for all of us. So you guys have given us an outlook there.

Just switching to cost savings a bit. Encouraging to see that coming in so soon. Certainly surprised us. Can you just remind us again how much of those cost savings are sustainable and not just deferrals? And as we're thinking about volumes kind of ending the year on a decline into next year, will there be more opportunities for you guys to eliminate fixed costs by consolidating a lot of these operations?

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

Yes. So it doesn't surprise me that -- where we are on a cost basis. And I see that you obviously -- you guys don't have as much insight as we do. But that's why we try to give you at Slide #7. That kind of spoke about what we're doing and how early this year and where we're doing it. I've seen -- you've seen people that are announcing cost savings, but they're still hoping they're going to come in, in the next number of quarters.

The amount of kind of cost savings and levers that we pulled, you can obviously not do that in the second half of March. So I think what you're seeing here is a very clear outcome of something that started very early in the quarter and therefore starts to materialize nicely. It's executed. It's stuff that you don't have to hope that people are going to actually execute it. This stuff, you can take to the bank. And so in a world with a lot of uncertainties, you have a great certainty there around what we're doing with capital and what we're doing with cost. So we're working all of those. And I think that continues to go nicely into the rest of the year.

I mentioned in my prepared remarks that we're absolutely looking at, "Hey, what can you do on a plan basis, field basis? What kind of consolidations can you do depending on what is happening to volumes?" I can tell you that as myself, Sean, the rest of the management team, we have more than regular weekly meetings around this. So there are plans that are sitting on the desk, ready to execute as soon as we see volumes starting to come off the system. As far as we are today, we haven't really seen any of those, but we have a lot of plans. So it is absolutely another thing that we're looking at. You've seen us do that year over year, over year, and we'll continue to do that.

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

Spiro, just -- I'm going to add one -- you asked about sustainability of the savings. There is a significant portion that are obviously reduction in forces and things of that nature carry on. I think one thing that's pretty interesting. We got on the cost savings earlier. You heard Wouter's comments. And in terms of the level and resetting the company, I think we've got the company -- we're calling it, structurally reset in a lot of ways, that when the volumes come back, when commodity comes back, we're going to even be stronger than I'd anticipated.

And I'll give you one other interesting example, and it's -- there are very few positives coming out of the COVID experience. But obviously, people work -- everyone working, sheltering in place. All the things we've been able to do around reducing travel, reducing certain costs, I believe, in the long run, some of that is going to be sustainable. We're going to do things differently even when we get back to normal. We've learned how to do things more efficiently. We don't need everyone in the office. It's pretty impressive what -- I would not have believed that we could have closed our books the way we did. I made some of those comments earlier.

So I think from a sustainability perspective, I am incredibly excited that some of the things that the management team here has been able to deliver is going to bode very well and really sets up DCP when we come back into recovery.

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

Yes. And then maybe one more thing to kind of add to it, around sustainability. Don't underestimate all the work that we've done around a digital transformation. And that digital transformation was all focused not only at the corporate level but at the plant level, on the field level, of completely changing the way people work. And it has enabled us and gave us an opportunity to do some very, very significant things here around cost and things like while having safe, reliable operations. So I think that digital transformation, where we spent significant time, effort and dollars over the last number of years is something that has been very, very leveraging in this current environment.

Operator

Your next question comes from the line of 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 follow up, but maybe dig deeper from Spiro's question as it pertains to DJ. These guys seem pretty [constructive] at least for April on volumes there, and you mentioned the strong economics. But I guess we're halfway through almost the second quarter. How are you seeing volumes there? And particularly with the DJ, how are you seeing production? It seems like Southern Hills was kind of gaining momentum into 2Q here, but any color you can add there

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

Yes. I think so far, things are doing quite nicely in the DJ Basin for us. So as Sean mentioned and we both kind of were talking through, we absolutely do expect some things to get shut in. But we are not seeing in any way, shape or form things like you're seeing in a place like the Bakken. I'm looking at our inlet flow rate right now and it's very strong. So it continues to be very nicely sitting here right now, but at the same time, very, very dynamic situation. I do kind of want to remind you of that we have quite a lot of minimum volume commitments that producers have on our systems and minimum margins, and that will give us some protection we expect here in the coming months.

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

Got it. And then I just wanted to touch on -- it seems like you guys are in a good spot liquidity-wise. But do you guys foresee any equity issuance this way -- the year?

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

No. I think, James, we've been -- we haven't issued equity in over 5 years. I think with the -- again, we've restructurally set the company up in a lot of ways. When you think about those -- the $900-plus million of actions, many of them are -- I'll use the word permanent, but there's obviously sustainable. It sets us up in a really good place. At the end of the day, really not the need to issue and utilize the equity markets. And we weren't anticipating that anyway.

Operator

Your next question comes from the line of James Carreker with U.S. Capital Advisors.

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

I just wanted to get some color maybe on the decision to withdraw EBITDA guidance. You guys clearly spent some time thinking about the volume impact. Commodity prices are volatile, but there is a market to look to. And then I saw that you guys talked about some of the MVCs and minimum margin items you have. So what are kind of the known, unknowns that kind of gave you reservation in not putting an updated number out there?

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

So let me take that one, James. First and foremost, I think when people give guidance, you want to be reliable, you want to be accurate. But we have given you -- we have not given you EBITDA, but we have given you volume guidance by segment, by region. We have given you cost detail. We have given you capital guidance. We have given you liquidity. We have given you sensitivities.

What are the unknowns? Price and duration. And I think it is pretty dynamic right now. It's like trying to solve a Rubik's cube blindfolded. You got no visibility, it's too complex, and there's too much variability to lock out and get it right.

Let's be very clear here. We're midstreamers. Midstreamers are sitting between energy production and energy consumption. I don't think anybody in the world has a good, clear thought around what energy consumption is going to look like in the second half of this year. I think if you look at energy production and you look at the various producers -- and we have spoken about this. Every question has been around this, "Hey, what are we seeing?" And things are changing for our industry on an hourly, daily, weekly basis. And we've continued to see things change here very rapidly still day by day.

So you sit here and say, then you take the commodity cycle over it. I think I mentioned earlier, you've seen ethane kind of moved 200%, 250%. Within a matter of last 2 or 3 weeks, you've seen crude going from minus $35 a barrel, minus $37 to mid-$20s. So the amount of volatility that you have and then midstreamers saying, "Hey, even though we don't know what energy production is and we don't know what energy consumption is, but we have perfect, clear guidance for you," I think that is pretty hard.

So again, we want to be reliable. We want to be accurate. That's why we've given you all those details. I can make an argument that in this call, we have probably given you more details than we normally give you during other earnings call that we have with you.

So for us, that was important. When the dust settles, like we're absolutely returning to guidance. I think what really matters is what we're doing. Real cost savings, those are showing up. We're not talking about them. They're showing up. You can take them to the bank. Real capital reductions, those are showing up. We are not finishing assets that the world doesn't have a need for years and years to come. What we have done is we stopped whatever we could do and we retained $900 million of cash to go to the balance sheet to create liquidity and things alike.

If the recovery is quick, and we obviously hope for that -- and who knows if it's going to be L U V, Nike Swoosh, bathtub. We don't know. But if the recovery is quick, we are set up really, really well as a company. And we'll absolutely go back to giving you a clear EBITDA guidance. But under this situation with some of the massive unknowns that everybody is having, not only in our industry but every other industry globally, we thought it was prudent to not give you something that is going to be very difficult to be accurate.

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

No. I understand the difficulties, but it doesn't have to necessarily be one number. It could be a range. And one reason I bring it up is because we've seen from some of your peers what we found -- a fee-based rate is fee, but then commodity prices go down. And all of a sudden, that fee margin goes down as well. And so some of the relationships between price and volume change. And so sometimes a range of outcome is going to be helpful or at least the assumptions behind it. So I appreciate the uncertainty, but I just want to give you a sense for why I ask, and I certainly understand the difficulty in estimating...

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

No. James, I think it's a fair question. I think you can -- given everything that we've given you, I think you can do the math. You can do the math really, really well. Remember, there's a liquidity number in there. That should give you some pretty good indications of how we think about stuff with the sensitivities and other things like.

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

No. I definitely -- and I was going to actually ask about that. Is there any -- in the year-end liquidity number, does that assume any type of asset sales or any other sort of onetime items that would be added to liquidity? It's just...

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

No, and we never did. So I know there's other people who put asset sales and things like that in our guidance, in our budget, we never do that. So we always look at those markets as affinity. They may come in quickly. They may go away quickly. So we never put any of that in there. That is just operational. If there are certain things around, "Hey, can you potentially sell an asset that is non-core like we did last year?" that would kind of be in over and above and extra money in the bank.

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

Yes. I mean just to close out Wouter's comment, James. That's how you get to the high end of the range, right? But we've been focusing on $700,000-plus. That doesn't require any sales. But if you were to get to $1 billion, there are other levers that would get you there.

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

Got you. Understood. That's helpful. And if I could fit in one more, just can you remind us -- I know you guys talked about high level of contracts on Gulf Coast Express, Cheyenne Connector, even Sand and Southern Hills. But I think you guys alone are responsible for shipping a good portion of some of that capacity. Is there a situation in this declining production environment where you guys would see yourselves underwater to the commitments you have to some of -- even some of your own partially and wholly-owned pipelines?

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

No. I think -- I don't think that's the case. If you think about the company and our viewpoints, which have been very different than many others, around -- we've seen the overcapacity, James, coming for a while. We didn't build -- overbuild capacity on our assets. We didn't put a bunch of assets in place that are going to now be empty.

I want you to make sure you understand we have also used significant offload agreements. In other words, we've been utilizing other capacity over the last couple of years in a big way, both on the NGL pipelines and on the G&P side.

The reason I bring that up is obviously those are volumes that if we -- that in high-volume periods, we can push them off and pay a fee. In low-volume periods, we can bring them back and help them to satisfy any T&Ds that we have. So I think we are set up incredibly well to not have any issues with minimum volume or T&Ds that are on -- that were required to meet.

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

Yes. And maybe just to put one in perspective for you, think of Cheyenne Connector. Our minimum volumes on that is 300 -- our commitment to that is 300 million a day. We're flowing about of 1.2 billion, 1.2 Bcf in a place like the DJ Basin. So I think that gives you a little bit of perspective.

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

That's helpful. Any quantification of how much you guys have that you're currently offloading that could be pulled back either on the NGL pipe or the G&P side?

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

I'm not going to give you details on where we are, but I can tell you we're offloading in a number of different places. We're offloading in the Delaware Basin. We're offloading on some of the pipes. I think we're offloading -- we have been offloading in the DJ Basin as well.

Operator

(Operator Instructions) Your next question comes from the line of Shneur Gershuni with UBS.

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

Sorry if I'm going to ask questions that may have been asked previously. There's just so many calls today. Maybe to start off, to just follow up on a clarification on James' last question. Are you being offloaded onto at all from an NGL perspective that could be pulled back to other systems?

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

Yes. We're offloading. So we have more volumes. So we have been utilizing on the NGL side, Shneur, offloads on other pipelines because here's the reality. The capacity, you got overbuilt situation on the NGL side in certain areas. And we've been able to utilize those offloads at very attractive rates because people are just trying to pull volumes on.

So the point we were trying to make is if we had a T&D that we need to require, we can pull those volumes back onto pipelines, our pipelines or a pipeline that we would need to meet a T&D on. So that's a phenomenal position to be in. You heard Wouter allude to it earlier, Shneur.

It's the same thing on the G&P side. Instead of building -- continuing to overbuild G&P assets, we have tried to keep our assets full. And where we've had seen some growth, we've been able to use other people's capacity. Latham is a great example. And offload those volumes so that, again, if we need to bring volumes back in a period of decline to meet minimums, we have that ability.

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

Sean, I totally appreciate that and understood that. It was clear before. I was more asking the question, is anybody -- like an enterprise or somebody else, is anybody not loading onto your system that is at risk to be pulled back?

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

No. And if they are, it's very, very minimal minimum volumes. I think a lot of it, Shneur -- and we've been talking about this for quite some time. We've been talking for quite some time about liking to be supply long and capacity short. And I think that strategy was a strategy that we were very counter to many who continue to say, "Hey, let's build more plants. Let's build more pipelines and other stuff." So a lot of people have been more only, "Hey, let's build more. Let's build more." We have been very counter, I think, to many others in our strategy of saying, "Hey, this growth -- super cycle of growth, after 10-plus years, need to change at some moment in time."

We obviously, in no way, shape or form, expected a COVID-19 kind of situation to kind of force us into that. But in general, I think there were not too many people who were saying, "Hey, let's build less." A lot of people are building more, and a lot of people are continuing to kind of fund new growth as we speak, new plants, pipelines and other things that we're probably not going to need for a long, long time.

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

That makes perfect sense. And your strategy, I think, has been a very sound one. And also the fact that you went after cost and optimization early on has set DCP up well. I mean the one area that's been an overhang even while things were good has always been the balance sheet and the distribution coverage ratio. And I realize that you have to solve the IDR issue as well, too. But you have the double black swan event, which sort of gave you an opportunity to sort of attempt to rightsize that. And you seized it and cut the distribution by 50%.

I'm kind of curious why you wouldn't have gone further and take it temporarily down to, say, an 80%, 90% type of cut because like in this environment, obviously, nobody is replacing much of value on and leverage seems to be where the key focus is. And it's something that you can return as soon as volumes start to pick up. So I was kind of wondering if you could talk about the discussion at the Board level and with your large owners, shall we say, about the distribution decision.

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

I'll start, and then Wouter can take you through maybe the breadth of the Board discussion, Shneur. But when you think about all the models we ran, I mean this is -- I've been through a lot of downturns in my career. This is one like I've never seen.

So the context I want to give you is when we did the action in March, which feels like years ago and it really wasn't that long ago, we had already put in place a significant amount of self-help. We had already cut costs. We've cut some capital. We cut some -- obviously, sustaining capital was pulling back. And with the 50%, we ran a bunch of scenarios and it worked. It was appropriate.

What has happened since then has been off the charts, right? And we had another press release that came out after that around the reduction in force, another $50 million-plus. And look, Shneur, every week, Wouter and I are in meetings looking at how do we continue to get more efficient with the company and what are the levers.

So I'll close out by saying at the time, we thought we had a very sound case. We knew we had more dry powder. I hate to use that term, but we had more dry powder if things continue to get worse. And we want -- we thought let's take a balanced, measured approach. I think that's what we did. And things have continued to get worse, and we continue to pull more levers. But I believe that was the rationale that I know from an executive committee sitting here at DCP that we took. And Wouter can talk through the Board strategy, but that's how we felt as a company. We're managing through this.

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

Yes. I'm not going to talk through the Board strategy. I don't think that is the right thing to kind of discuss here. But in the end, I think Sean is very correct. Like what we wanted to do is balance the long-standing commitment that we have to investors that have been with us for a long, long time and then the long-term sustainability of the company. And we believe that what we did at that moment was the right thing to do under those circumstances. You own $900 million of cash that doesn't go to building new growth projects and other stuff and went straight to the balance sheet and the liquidity, while at the same time, maintaining significant dry powder that we have here today and continuing to do other things around optimizing the business, the systems and things like. And like if you go back and you look at our numbers -- and again, we've given you a tremendous amount of details except for EBITDA. But you can see clearly from our numbers that under the current scenarios, we're free cash flow positive here in 2020, which I think is a great thing under kind of a situation like this that probably nobody could have ever foreseen coming.

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

That makes sense. And one final question, if I may, just operationally. Can you talk about what the underlying decline rates are for your existing footprint in the DJ? Just -- I recognize that things are going to be weird with shut-ins and so forth when they materialize. But like just assuming that there's no drilling activity and no new wells completed, what's the decline rate that we should be thinking about around your footprint?

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

I think the decline rates are not dissimilar to other kind of place where it predominantly -- or just it's all horizontal drilling without a tremendous inventory of old vertical wells that aren't declining as much. So whatever you're going to see and think through for a Delaware basin and the DJ Basin is relatively similar if nothing happens. But one offset to that is minimum volumes that we have on our system with our producers. The other offset is some pretty significant inventory of DUCs that some of our key producers have here in the DJ Basin.

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

Okay. So you do have a significant inventory of DUCs, but it sounds like you're tilted more towards newer horizontal wells rather than legacy vintage vertical wells. Is that the right way to talk about it?

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

There's still lot of vintage vertical wells on the system here in Colorado in the DJ Basin. At the same time from a volumetric point of view, it's obviously the newer wells that make up more of that system.

Operator

Your next question is a follow-up question from the line of Jeremy Tonet with JPMorgan.

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

Just wanted to circle back on just the cost reductions. I noticed in the PR, you had $46 million realized this quarter. Maybe you can just talk about components there and maybe how you're trending through 2Q so far?

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

Yes. So obviously, the cost side of the equation, significant amount of -- it's spread out quite a bit through the corporate side of the equation. There's a significant amount of cost coming out of the businesses, obviously in anticipation of what we're heading towards, Jeremy. You have some -- we've talked a bunch about the benefits of all the investments we've made in technology over the last 3 years. We had pretty -- some isolated numbers to continue that program into 2020. But obviously with what's happened, we pulled back significantly on those.

One thing just as a clarifying item. The reduction in force, you're going to see more of that occurring throughout -- that happened in April. So those costs are really not in the Q1 dollars.

In terms of the trend -- and then I guess the last thing we alluded to earlier. You're just seeing a lot of reduction as the company sheltered in place, people worked from home, people -- overtime was pulled back. Things like travel, things like T&E, those types of things continue to decline in a big way. And again, areas that we think we're going to try and make sure we can hold on to some of that.

In terms of the trend that we're seeing so far in Q2. So far, so good. So around -- Wouter -- we've alluded to volumes and even on the cost side and, again, as you start to see the full benefits of some of the actions we took. I feel pretty good so far into the second quarter around the cost side of the equation as well. So plan is working, and I think it's something that this company has shown an ability to go at it quick and definitely execute well around ensuring our costs are in line.

Operator

Your next question is a follow-up question from the line of James Carreker with U.S. Capital Advisors.

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

I was just wondering if you guys have any thoughts, broadly, as we see production shut-ins and what that does to ethane, particularly if a lot of these new crackers are still running relatively full. Do you see a situation in which less and less ethane gets rejected? Does that provide any upside to you guys even on the G&P side or on the pipeline side? And if it does, is some of that baked into your thought process for the rest -- for the balance of 2020?

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

Well, I kind of look at this as upside, so it's not baked in right now. I think you're absolutely right. I think I made some comments about seeing ethane move like 200% in just a matter of a couple of days or so. And there's a couple of things at work. One of them is obviously the demand side of the equation. The other thing is nat gas.

So net-net for us, having exposure to ethane from a commodity point of view, it would create some upside. And then secondarily from creating barrels for our pipeline system would be helpful as well. So we've not looked at that as a good guy.

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

Any potential quantification of what that could do? I know it's hard.

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

I think the way to think about it, James, we give you the -- on the price side, you're going at it from 2 levels. From the price side, obviously, we give a sensitivity so -- of ethane. And we do it in the whole NGL barrel -- or the old NGL composite, I'm sorry. But there is some there. There is some upside. We have hedges in place this year, but we still have some open positions. So it could be significant, I would say. If things came back strong, you're talking tens of -- $10 million-plus.

And then I think what you alluded to, we also talked about a decline of 10% to 15%. Obviously, the correlated decline on the pipelines is tied to the -- what we think is going to happen on the gas side of the equation. So if rejection starts to come off -- and by the way, rejection for Q1 was very similar to Q4, pretty close, maybe a little bit lower, but in the 81, 82. Remember, last year, we were only rejecting 40. So that would be some upside on the pipelines and that's not insignificant.

So good that we haven't baked it in, per Wouter's comments. But if things play out that way -- and that's the way it always plays out. In downturns, there are always some favorable correlated items that can come out. Ethane may be one of them that we may see. And if that happens, it is not insignificant to the company's earnings.

Operator

And at this time, I would like to turn it back to the speakers for any further comments.

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

This is Sarah. Thank you all for joining us today. If you have any questions or any follow-up, please don't hesitate to reach out. Have a good day, and be well.

Operator

Ladies and gentlemen, thank you for participating. You may now disconnect.