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# EDITED TRANSCRIPT

## DCP - Q4 2018 DCP Midstream LP Earnings Call

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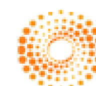

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Q4 2018 DCP Midstream Earnings Conference Call. (Operator Instructions) .

As a reminder, this conference call is being recorded.

At this time, I'd like to turn the call over to your host, to Irene Lofland, Vice President of Investor Relations. Please, go ahead.

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

Thank you, Dylan.

Good morning, and welcome to the DCP Midstream Fourth Quarter 2018 Earnings Call.

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

Before we begin, I'd like to point out that our discussion today includes forward-looking statements. Actual results may differ due to certain risk factors that affect our business.

Please review the second slide in the deck that describes our use of forward-looking statements, and for a complete listing of the risk factors, please refer to the partnership's latest SEC filings.

We will also use various non-GAAP measures, which are reconciled to the nearest GAAP measures 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 will take your questions.



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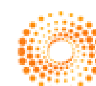

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With that, I'll turn the call over to Wouter.

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

Thank you Irene and thanks to everyone for joining us.

In 2018, we continued to demonstrate strong execution of our commitments, while advancing our DCP 2020 strategy, which is evident in our full year results.

We delivered DCF above the high-end of our 2018 guidance range, driven by improvements and expansions in our base business and outcomes of our DCP 2.0 transformation efforts.

However, due to a weaker Q4 and a number of nonrecurring items, we missed beating the high end of our EBITDA range and Sean is going to speak to that shortly.

Our balance sheet remained strong throughout the year and we exited 2018 with a distribution coverage of 1.11x and a leverage ratio of 3.8x, both within our target ranges and exceeding our full year guidance.

We continue to build on our track record of successfully executing our long-term capital allocation strategy, focused on expanding our value chain by a disciplined growth and increasing volumes and cash flows.

And behind our operations, our DCP 2.0 transformation efforts have elevated our competitive advantage by driving greater reliability, improved safety and increased volumes, resulting in financial benefits, substantially higher than our 2018 commitment.

On Slide 5, we'll highlight some key drivers underpinning our 2018 results. Notably, we saw a record volumes in Sand and Southern Hills and in the DJ Basin.

On the logistic side, as a result of our DCP 2.0 innovative optimization efforts, we added 35,000 barrels per day of capacity to Sand Hills, which required very little capital to produce significant cash flows and improved customer service.

Combined this optimization with the latest expansion to 485,000 barrels per day that was in service earlier than expected in Q4 and Sand Hills had an approximate 25% increase in volumes year-over-year.

Additionally, Southern Hills volumes increased over 35% year-over-year, which, coupled with Sand Hills, drove record logistics margins.

In the DJ Basin, wellhead volumes were up about 20% from 2017 due to excellent reliability and the addition of Mewbourn 3 coming online ahead of old time lines. This 200 million cubic feet a day processing plant was at full capacity within weeks of going into service, meeting our customers' demands and driving earnings.

And beyond our steel pipes and plants, DCP 2.0 is completely transforming the way we operate.

In addition to major optimization innovations, our 2018 transformation efforts included increased digitalization of core processes and a significant expansion of our integrated collaboration center to include remote plant operations and enhanced plant and field efficiencies.

On top of all this, we delivered another record-setting EHS year with a 0.23 total recordable injury rate, which is a best-in-class safety outcome.

I want to thank our employees and contractors for their incredible commitment to operating our assets safely.



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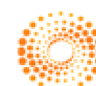

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So as you can see, we have a strong execution in almost every component of our strategy in 2018. However, in Q4, we missed the mark on cost. Though we intentionally took advantage of our record-setting DCF to invest in reliability and accelerate our transformation, our expenditures exceeded these planned efforts. Rest assured, we have taken swift and diligent action to lower our cost and drive efficiencies.

In summary, 2018 was a great year that ended on a disappointing note.

With that said, 2019 is off to a strong start and so far the results we have seen this year are much more reflective of the first 3 quarters of 2018.

And with that in mind, Sean will cover our 2018 financial results and 2019 guidance.

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

Thanks, Wouter.

On Slide 6 and 7, I'll give insight into our full year 2018 results, details around our fourth quarter miss versus our previous guidance and our 2019 expectations.

Our 2018 DCF of $684 million was driven by record earnings on our NGL pipelines, margin and volume growth in our G&P segment and significant uplift from our Guadalupe pipeline.

We upheld our track record of never cutting the distribution in our 13 year history and delivered a coverage ratio of 1.11x for 2018.

With a consistent focus on strengthening our balance sheet, in the fourth quarter we achieved the bank leverage ratio of 3.8x, well within our target range of 3 to 4x.

Additionally, in 2018, we did not issue common equity for nearly the fourth year in a row, and hope to carry that trend into 2019, more on that in a minute.

We were able to deliver DCF results above the high end of our guidance due to lower maintenance capital and lower financing costs. However, although, we guided to also beat the high end of our adjusted EBITDA range, in the fourth quarter, there were 3 headwinds that kept us from achieving this. First, since we gave up data guidance in November, we saw crude and NGL prices drop by more than 20% from our expectations.

Next, a third-party line strike on Sand Hills resulted in an approximate $10 million to $15 million adverse impact that affected both our G&P and Logistics segments.

And third, the cost overages that are discussed earlier partially resulted in a quarter-to-quarter increase of $28 million, of which approximately $10 million to $15 million was above our expectation.

So though we guided that the fourth quarter cost would trend at higher levels, Q4 came in above what we initially expected, due to unanticipated reliability work and turnaround cost in our G&P business.

Notably, if we adjust for the line strike price and cost misses, we would've also achieved beating the high end of our EBITDA range for the year and Q4 would've been in line with our original expectations.

As we are early in 2019, commodity prices have improved moderately and we have moved beyond the third-party line strength.

We are seeing both, Sand Hills and Permian G&P, volumes increase back to expected levels and our costs are now meeting our expectations, so we're confident that we're back on track in Q1 of 2019.



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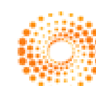

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Now let me give you the details on our 2019 guidance on Slide 9. Our adjusted EBITDA range is $1.145 billion to $1.285 billion and our DCF range is $700 million to $800 million, resulting in distribution coverage of about 1.2x.

The midpoint of our 2019 guidance represents a 19% increase in adjusted EBITDA over the last 2 years and a 17% increase in DCF. With these increased cash flows, coupled with lower cost, we are targeting a bank-leverage ratio of below 4x.

And lastly, we continued to focus our financial strategy on a disciplined capital approach, so we're guiding to a reduced growth capital range of $600 million to $800 million and a maintenance capital range of $90 million to $110 million.

In 2019, we expect to continue to self-fund a portion of our growth via excess coverage and divestitures, resulting in no planned common equity issuances. We're hitting the ground running with the recently announced sale of our non-core Wholesale Propane business for an attractive multiple that is immediately accretive.

I do want to note that there is potential upside relevant to commodity prices this year. For example, if you take the 2018 commodity prices and apply them to the midpoint of our DCF guidance range, that would equate to approximately $25 million of incremental DCF, putting our DCF at around $775 million, which is towards the top of our range.

Our approach at 2019 is guided by our consistent philosophy. We're committed to controlling what we can control, strategically managing our diverse portfolio of assets and ensuring that we execute and deliver on our financial commitments.

Slide 10 shows our current hedge position, earnings, composite and volume outlook. With a focus on managing commodity exposure and increasing downside protection, our fee-based margin has more than doubled since 2010 to 65%, and we're well on our way to our 80% target of fee-based and hedged.

Looking to our commodity sensitivities, you'll find that for the sixth year in a row, our sensitivities continued to trend lower on average as we invest in fee-based growth and hedges.

This stability is a result of our multiyear strategy to become a fully integrated midstream service provider and we're excited to announce that we expect to reach a 50-50 balance between our logistics and marketing and G&P segments in 2019.

Lastly, we are seeing strong volume growth in the regions where we're dedicating our growth capital, which will drive increased cash flows.

All in all, 2019 will benefit from a full year of earnings from Sand Hills and Southern Hills, capacity expansions in our Mewbourn 3 plant, plus the new cash flows from our O'Connor 2, Southern Hills extension via White Cliffs and Gulf Coast Express projects all coming into service throughout the year.

With that, I'll turn it back to Wouter.

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

Thanks, Sean.

On Slide 11, I want to reiterate our long-term strategy to ensure we're reaching our DCP 2020 vision and meeting the needs of our customers through a diverse and fully integrated value chain.

Our business strategy, like our financial philosophy, has remained simple and consistent. Our approach is to strategically extend, balance and fully integrate our value chain.





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There are 3 main components of our strategy relevant to our base business: first, grow and protect the gathering and processing franchise along our NGL pipeline platform; secondly, expand our fee-based NGL and residue gas takeaway footprints; and, third, drive fractionation and export facility excess and participation that enhances the DCP value chain.

We've achieved substantial success in executing this strategy, as illustrated by the aggressive growth in our assets since 2011, with notable inclusions, be in the construction in several expansions of Sand and Southern Hills, the partnership in Front Range in Texas Express and several new plants in Permian, Eagle Ford and DJ.

At the same time, we have rightsized and high-graded our portfolio by divesting noncore assets in places like Wyoming and Louisiana and the recently announced divestiture of our Wholesale Propane business.

Across our footprint, we will 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.

As we work to achieve these 3 pillars, you'll see our disciplined growth projects outlined on Slide 12, are completely aligned with this focused approach and are driving our strategy forward.

And I'll quickly hit some project updates since our last call. We are on target to put the O'Connor 2 plant into service at the end of the second quarter, with its bypass now planned to be in service in Q3, which improves our capital efficiency and better aligns with our volume expectations.

In the Permian, the construction of Gulf Coast Express, in which we have a 25% interest, is underway and progressing well with an expected in-service date in October of this year.

Additionally, we have recently extended the open season for our Gladiator project due to strong interest. For DCP, this project is ultimately an NGL play, an alignment with our long-term strategy of expanding our fee-based logistics platform while driving our molecules to the Gulf Coast.

As Sean mentioned, we have lowered our growth capital range for 2019 and, therefore, expect to self-fund a portion of this growth through excess coverage and strategic asset divestitures.

You can see that we're dedicated to a focused strategy, underpinned by discipline and long-term stability.

To this point, when we also address concerns about the politics in Colorado, where you can see we have multiple exciting growth projects. We remain steadfast that the DJ Basin has some of the best economics in the country, and we are proud to have an unparalleled position that is further strengthened by minimum volume and margin commitments.

Importantly, following the recent elections, we expect that legislation and regulation will be potentially amended to address energy development in more populated and urban areas. But the vast majority of the volumes that we received from our customers come from much more rural areas in Weld County.

So at this time,, we do not expect any material impact on our earnings in Colorado from such legislations or regulation, therefore, our growth strategy and approach to investment in the state of Colorado, including the Bighorn facility, remains unchanged relevant to the current political landscape and expected outcomes.

All in all, in addition to the projects outlined here on this slide that are already underway, we are very confident that we will provide additional processing capacity in Q2 of 2020 for our DJ Basin customers.

Moving to our final slide, I want to reiterate our strong position as we look to 2019. We have strategically expanded and integrated our diversified asset portfolio to drive strong earnings, ensure long-term stability in any environment and meet our customers' needs across the full value chain of midstream services.



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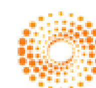

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In 2019, we expect to achieve a 50-50 balance of our G&P assets with our fee-based logistics and marketing portfolio. This is a tremendous shift from DCP's historic business model, where more than 90% of margins were derived from our G&P segment.

Building on this strong foundation we, have and, continue to take dedicated steps to reduce our risk profile and practice financial discipline to ensure the stability of our growing earnings.

Substantial, new and full year cash flows, coupled with our dedication to drive in cost efficiencies, backstop our commitment for no planned common equity issuance for nearly the fifth year in a row.

Additionally, we are confident in our ability to further accelerate our DCP 2.0 transformation to fundamentally change the way we work and optimize operations. Our proactive strategic approach continues to produce strong financial results, better service for our customers and record industry safety performance. And we're looking forward to a great 2019.

With that, I'll open it up for questions. Dylan, can you open up the line?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from J.R. Weston from Raymond James.

**James Randal Weston** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Just a couple of questions trying to sort through the 4Q results and just better understand what's in 2019 guidance. First -- first heard the color in the prepared commentary, just kind of taking the final point there, on the $10 million or $15 million of, I guess, kind of fourth quarter cost overruns, would it be fair to say that none of that is repeatable in 2019? Or how does that interplay with 2019 guidance? And kind of relatedly on the expense side, was there any change related to higher third-party frac costs during the quarter?

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

No, no. So, no, on the frac cost. Yes, on it is fair to assume that, that will not continue into 2019. Those were over dues. We had anticipated, J.R., that Q4 we were doing more of our turnarounds in Q4, we had a lot of reliability work. These would be in the G&P areas, specifically, the South and the Permian, unfortunately, those costs came in, even though we anticipated some of that $28 million increase, the $10 million to $15 million was cost that came in above the levels that we had thought so that was surprises when we got into turnarounds and definitely incremental cost around the reliability.

To Wouter's points that he just made, we -- those costs have been brought in line, we're done with that work, we're transitioning into 2019, our expectations are that we're back online with the cost trends and the efficiencies we've been able to deliver, so do not not model that going forward. In terms of higher frac fees, we did a really good job, I've got to give a shout out to our team in managing, we buy a lot of frac and we were able to avoid those massive frac charges that maybe others had to deal with in Q4. So not recurring, unfortunately, stuff that came in $10 million to $15 million above what I would have guided to on our last call.

**James Randal Weston** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay, great. Definitely very helpful commentary there. I guess, second, again, kind of focused on 4Q but thinking about 2019 and just across the peer group thinking about fourth quarter performance, one on the drags was keep-whole contracting exposure and just kind of curious how much



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of a factor that was for you all in fourth quarter and if there's any additional disclosure you all can provide on kind of keep-whole exposure in the G&P segments, especially, by region, if that's possible?

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

Well, I guess luckily for us that was not a driver. It's been a long, long time since keep whole has played a large role in DCP's portfolio, so so much so that it predates my time with the company. So we do have some POP contracts but the keep whole is not something that has driven any adverse earnings for us in quite a while and, therefore, it probably won't show up in our disclosure.

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**James Randal Weston** - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay, it's perfect. Very helpful there. I guess just last one for me, just kind of curious on the rationale for the commodity price ranges for 2019. If you could provide any additional color there, that would be really helpful.

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

What we did -- and we typically obviously, historically, we've had more commodity exposure and we've improved on that significantly with the 65% fee in '19 and we have some hedges in place to get us to 76%, 77%, if you will. We use a pretty standard approach, typically, to setting our midpoint and this -- it's either going to be some form of a forward and that's what we used this year, we used a February forward or in many times we'll use sort of an industry average and we'll look at out there and see what the industry averages are. So that sets the midpoint, that's pretty consistent with what we've done in the past. When you look at our up and down, we usually go up and down somewhere between 6% and 7%. I can tell you when we set the high end of our commodity range, as I looked at those numbers and kind of looked where '18 came in, which we thought was a pretty constructive year, they're relatively close and then, as we set the low end of the range and went down about 6% or 7% off of the midpoint, it was pretty close to probably the lowest forward we saw for '19. So it felt like, to me, that we had bucketed fairly well the low and the high end. You heard in my remarks so far, knock on wood, crude has come back a little bit from the levels of Q4 and propane's come back a little bit. And the last thing I would point out is, our commodity sensitivities continue to come down in general and we did see that again in 2019. So that's how we set our ranges, hopefully, we'll see some upside. I think I would to that if we can get back to '18 levels you'll see our DCF and adjusted EBITDA be at little bit higher levels.

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**Operator**

Our next question comes from Shneur Gershuni from UBS.

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

Just wanted to visit the 4Q results versus 2019 trends and assumptions (inaudible), are sort of revisited, but so part of the weakness in 4Q, as you've explained, is the rised rate and some of it is related to some reliability spend that came in a little bit higher than expected that you don't expect to continue, but we did see some (inaudible) for NGL volumes were down and so forth , just kind of wanted to understand kind of the trends that you're sort of expecting for 2019, if you can expand on it a little bit? And was some of this reliability spend part of kind of the 2.0, it's kind of where you had to take them down so that they can produce more afterwards? I was just wondering if you can kind of expand because you're '19 guide sort of doesn't seem to imply any of the challenges that 4Q continue?

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

So, Shneur, Sean. Couple of things and I'll try and hit them all. From a volume perspective, when we think about the reliability spend and the turnarounds that we had concentrated in Q4, it was areas like the Eagle Ford and the Permian and so the Eagle Ford, you saw some volumes





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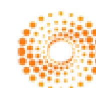

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declines, that's where we had some turnaround activity, that's where we incurred some higher costs, so that did impact the volumes. As you think about '19, we're anticipating and we're seeing that we're back on track, so that should give you some confidence that what happened in Q4 related to the Eagle Ford in those turnarounds was not something that's going to carry into '19.

On the Permian, same thing. We had, we were doing a lot of reliability spend in that area that affected some downtime on volumes. The other thing that Permian had around the volumetric outlook was the line strike. So the line strike, although, we were only down for 5 days did impact not only your NGL volumes, impacted our G&P volumes coming out of the Permian.

As you think about '19, we are seeing the Permian back on track and those volumes are back to the levels we would've anticipated. In terms of -- I think, your other question was, hey, is some of this spend tied to transformation? Absolutely, it's not all the reliability and the turnaround, but I think Wouter said in his remarks, we had such a strong Q3 that we really took the opportunity to accelerate and spend some additional dollars and those would be around ICC, around some of the plant and field work that we've done, also on the corporate function. So the -- some of that spend we intendfully increased in Q4 to get a good head start coming into '19. So the good news around the big miss in Q4 and I know we've seen a lot of press around it is, obviously we've moved beyond most of it, right? The line strike is fixed, the spend, I know Wouter's committed to getting the spend done and at the end of the day, the commodity has come back some as well.

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

Maybe, Shneur, it's Wouter here, to just reconcile some numbers for you. If you look at -- we missed the guidance, our consensus and actual DCF by $27 million, on the DCF line and $50 million on the EBITDA line. Kind of $50 million of that was the Sand Hills line strike. That is something that was outside of our control, environment [heats] very quickly but it absolutely really had an impact, volumes are currently floating. So you can tick that off the list, it was a onetime nonrecurring item. And the $15 million of that was cost and that was a surprise to us. I own that and I'm rectifying that, and we are rectifying that as a team. And as I told you, the results I'm looking at here today, 6 weeks in this year, versus where we were in the fourth quarter, the first 6 weeks of this year much more reflect the first 3 quarters of 2018. So that's down to $15 million. Then there's about $20 million in price, when we were doing our earnings call in the second quarter, in early November, crude was at $65. Crude in December 31 was on $45. That's a 30-plus percent decrease. We did not see that coming. I don't think anybody in the industry saw that coming, but things are kind of moving back from that point of view. If you add those 3 together, you get to roughly $50 million, which would put our actual DCF significantly above consensus, and it would put our actual EBITDA right at consensus, which would be above the high end of our guidance range for an year as a whole. So, again, 2 items outside of our control, one item that we owned, that we controlled that is being reconciled and I feel very good about and, as Sean said to J.R. earlier, we don't see, from a cost point of view that same issues happening in 2019.

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

Fair enough. And just to confirm one of your comments, Sean, so some of the reliability spend was about 2.0 so have you synthetically increased some of your capacity? Or earnings power as a result?

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

In 2018, we did see -- and it was high-return type stuff on the NGL Logistics lines we talked about getting the capacity on Sand Hills and Southern Hills, that was directly tied to work that we've been doing on 2 .0. I wouldn't say that it's -- moving to your direct question on the G&P side, Shneur, what you see it's just better optimization of the capacity we have, that 2.0 group is focused on getting the most recoveries out of the plants so that adds margin getting better, sending volumes to the plants that make more money, that's what the ICC is all about and then, as you think about '19 and this is what we're spending some money, we're heavily getting into something called remote operations, where it's saving us a lot of money but we're able to actually operate multiple plants from one location and there's a lot of benefits there. So it's not just adding capacity, per se, it's utilizing and optimizing the capacity we have.

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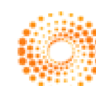

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**Wouter T. van Kempen** - *DCP Midstream, LP - Chairman, President & CEO of DCP Midstream LLC*

And I would say, Shneur, to add to Sean's point, DCP 2.0 of our -- in 2018 and 2017 has very much been to move the top line, focus on margin. So Sand Hills, Southern Hills optimization get significantly additional throughput without spending any money. That's worth tens and tens of millions of opportunity that we have, captured some of it in '18 and we'll capture in years going forward. Are we operating our plants? Making sure that we get the right efficiencies on a real-time basis. 2019, we're going to continue that, but we're going to spend a lot more focus and time and effort on transformation as it relates to cost. So that is something from a transformation point of view, we see some very significant opportunities and you should expect us to go after in 2019.

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

Great. Just to add 2 clarification questions. If I recall correctly, you have an FID Bighorn but you have a 2Q in-service date. Are you already ordering longer lead-time items? Or do you have to wait for the FID? And then, secondly, on an IDR conversion, which hasn't been announced, since of yet, is it fair to presume that once it's done, there will be a very strong coverage ratio on the completion of the IDR conversion?

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

Okay. Yes, let me take both of those, Shneur. So around the FID for Bighorn, yes, we are absolutely ordering long lead-time equipment. If you kind of look at broadly what we're doing there is, we have secured all of the permits, so state permits have been secured, local wealth counties have -- permits have been secured. We acquired a square mile of land where the plant will be built, we have long lead-time equipment on order. We are currently working the engineering with our engineering companies to make sure we fine tune and refine that.

Let me give you a little bit of history around the last 2 plants that we have built and are currently building in the DJ Basin. Mewbourn 3, from start to finish, was about 10 months. O'Connor 2, we think, is roughly about 10 months or so as well, 10, 11 months. So for us to get Bighorn online at the end of the second quarter of 2020, we really do not have to FID that plan until sometime in the second quarter of this year. So -- but rest assured we are continuing to move this thing forward very, very significantly. And as I said in my remarks as well, we are absolutely confident that we will be adding processing capacity for our producer customers towards the second half of 2020.

And then, the second question was around IDRs, I want to reiterate what I've said before, when it comes to IDRs, it's in my mind, is not really a matter of if we do it, it's a matter of when we do it. You know that we do not own the IDR's of Phillips 66 and Ambridge, they own the IDRs so in the end it's up to them to give an offer or put an offer on the table to us and our special committee to see if we can buy out the IDRs. I think, strategically, between Ambridge, between Phillips and ourselves, we are very much aligned around that IDRs have a limited shelf life and we're getting to work them off the shelf life. At the same time, we also announced, today, that we will not be in the equity market for the fifth year in a row. And we believe shareholder returns is something that's very near and dear to our heart. I love actually people talking more about that and it's something that, I think, we have practiced for many years in a row. We don't do equity dilution, there's tremendous equity dilution in this industry for unitholders, this is going to be the 5th year in a row that we won't do that. Sean spoke about what we do around our distributions. We have always raised our mandate, our distribution, which is very much -- with which we're a little bit of the exceptional industry. There's many, many people in the industry that have surprised investors with distribution cuts, either directly or backed our distribution cuts. We have not done that. So yes, to your question is, is it important for us to make sure that we have strong distribution coverage after we do an IDR buy in, absolutely. And the reason why is, because we want to keep that $3.12.. We want to protect that, the good thing is you see our numbers in 2018, we're at 1.11distribution coverage, which is above the high end of the guidance range that we guided all of you to a year ago and you look at 2019 will recover or guiding towards roughly 1.2x, so I think under that scenario you're absolutely getting into a place where financially it is -- it's very much achievable to do an IDR transaction and continue to have strong coverage for the unitholders.

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**Operator**

Our next question comes from Michael Blum from Wells Fargo.



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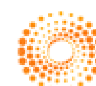

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**Michael Jacob Blum** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

I'm wondering if you can talk about what amount of divestitures are reflected in year 2019 financing plans? Or anything else you'll share in terms of what assets you might be looking to divest?

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

Yes, I'll take that, Michael. There is -- we, obviously, announced the wholesale Propane divestiture to GSR sale. Just let me kind of talk a little bit broadly about how we look at the portfolio. I showed you a slide of what we believe is strategically how we look at growing our portfolio, rightsizing our portfolio and focusing our portfolio. There are assets that don't fit that, the wholesale Propane business was one of those, we've done things in Wyoming, we've done things in Louisiana, so everything that doesn't really kind of go around that slide that I showed you, is stuff that potentially has a better use for someone else and than for us. The wholesale Propane business, I think, it was a pretty attractive transaction for us. The last time we publicly announced numbers on that business was in the '15, '16 time frame. Since then, the U.S. has gone from a net importer to an exporter. Part of the propane business is something like the Chesapeake terminal where we used to import. At the time of that -- when we -- the last time we announced the business we probably had about $25 million of EBITDA in that business. If you look at where the business is today, it is probably between 1/2 to 1/3 of that. We sold that business at a pretty attractive multiple, high-single digit, low-double digit, so you take all of that together, you have a pretty good idea of about, roughly, what the sales price for that asset was.

As it comes to what do we have in the plan for other dispositions for 2019, we don't have a lengthy list of assets that we are marketing. We tend to do this more in an opportunistic way. I want to kind of guide you back to when we sold our Wyoming assets, that started as a joint venture discussion with the ultimate buyer of that asset, which was Tallgrass. So are there some other assets that we have on the lid, kind of that's -- we potentially will think about around the edges of our footprint, absolutely. Should you look at hundreds and hundreds and millions of dollars for that, that probably is not the case. I would think that if the combined sale of that asset is probably less than $100 million.

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

Okay. Great, and then just a comment you made earlier about Gladiator, Wouter. Can you just expand, you said this is really like an NGL play for us, so can you just expand on that comment?

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

So, Michael, currently on Southern Hills, we can run about 190,000 barrels of NGL through that pipe. We can expand that pipe with adding some pump stations to 230,000, 235,000 barrels a day. And that is it. After that, there is literally nothing we can do anymore. We will be at the max for that pipe, if you -- for NGL service. If you put the pipe in a different service and you put it in light crude service, which is what we're talking about with the Gladiator pipeline, with using direct reducing agents, you can actually push 300,000 barrels through that pipe. So, obviously, the difference between the 235,000 NGL barrels, 300,000 barrels of light-light crude, that's some pretty significant efficiencies that you can create. At the same time, we are also looking at continued growth in the DJ Basin. We've put Mewbourn 3 in service, we are working on O'Connor 2, we're working on the bypass, those 2 alone is about 0.5 Bcf of capacity that we will put online. We -- I spoke about Bighorn and our intent to make sure that we build additional processing capacity and have additional processing capacity available to our producer customers in the second quarter of 2020. We extended Southern Hills into the DJ Basin to create an additional NGL outlet. We're expanding from Front Range and Texas Express to make sure there is additional NGL outlet, but we can definitely see ourselves to a place where we are going over the 235,000 barrels of NGLs for Southern Hills so what we would do is build a new Southern Hills Pipeline that has a larger diameter, that has a greater-greater throughput than the current 235,000 barrels a day, while at the same time working on -- or providing the market a solution that is needed to get that light crude products from the Midcontinent to the U.S. Gulf Coast. So that's how you really should look at this. We're partnering to get a (inaudible) group, why? Dig up some some pretty interesting assets, both north and south of our Southern Hills assets and in discussions that we had with them that led to the White Cliffs' transaction, with Southern Hills, we really saw there was some potential additional opportunities. So I hope that gives you a little bit more color.



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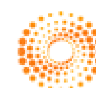

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**Operator**

Our next question comes from Elvira Scotto from RBC Capital Markets.

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

I have a couple of -- just some clarification questions. First, I know you mentioned that you don't have any keep whole exposure but can you break out the POP exposure that you have by region?

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

Elvira, I don't know that we do a ton of that but I can give you this, if you think about what the company's done over the years, the Eagle Ford's gone (inaudible) so as -- if you think about the portion of the growth of the company, it's been predominantly free. The Permian, it still has some POP but a lot of our for newer contracts in that area has gone to fee. The Midcontinent as well. The largest area and I think we've been -- we've said this in the past what we have the POP exposure, it's still going to be the DJ, that there is a [likely]release contracts, they're very accretive contracts, very lucrative contracts. We have added some minimal volume commitments and minimum margins commitments to their area as well. But that's probably what you going to see most of the POP exposure from us is going to be in the DJ. But as we've indicated in our '19 guidance, you continue to see the margin of the company move more and more to fee tied to the growth in our NGL business and our pretty effective hedge programs that we put in place. But DJ's the one area that has the most POP still.

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

Got it. And then, do you have a break out? Just overall with the POP percentages? Or what you expect that to be in '18, based on your commodity assumptions?

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

I don't think we've given that out in terms of -- and so there's a way to think about it is obviously at about 76%, 77%, you really just looking at 23%, 24% of the business still really exposed and most of that would be POP and most of that's in the north.

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

And, Elvira, the other thing I think I would guide you to look at this, if you take look at the NGL sensitivities that we give to to all of you and you kind of looked back, we've done that now for our deal for many, many years in a row. If you start looking back over the last number of years to where the NGL's sensitivity is today, you see that going down fairly significantly and that really, kind of, shows you how we change the portfolio and some -- how some of the POP contracts have changed as well.

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

And to add to Wouter's point, there was a time it was above double digits in terms of the sensitivities and now we're low single.

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

Okay. Great. That's helpful. And then, I -- just to go back to your 2019 guidance, so is the range of your 2019 guidance based on that range of commodity prices that you provided? Meaning is low end...



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

Yes, it's I think -- the answers, yes, but it's not the only driver so if you're looking at adjusted EBITDA range plus or minus X in the DCF range, the key is to think about commodity as one driver, so obviously as we go to the top end of the range, we're assuming the higher commodities realization in the lower end. The are a couple of other things we give you, we give you, obviously, a maintenance capital, although, that's not huge, that could be -- that's a driver as we think about going up or down. Growth capital, we have lowered those levels, but depending on where we end up there, that could drive it. And I think the other one to think about our ability and I see it more as upside for the company and Wouter alluded to it, we're going pretty hard, we have assumptions obviously in '19 that costs are going to go down and we're already executing on that from '18 levels. But we may go harder at that, that would be another reason that we would potentially hit the higher end of the range. But commodity is one of the drivers, not the only driver.

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

And I think, overall, if you look at last year, it might be guided to $600 million to $675 million [with] the DCF, we obviously came in at $684 million, above the high end of the guidance range but from the midpoint, it was really 6% to 7%, up or down, if you take the midpoint today, it's 7.50% on the DCF it is the same 6% or 7%, up or down. So that is very, very much in line with what we did last year. One item to add to what Sean said, we put in our guidance that we basically have -- don't -- we will not be in full ethane recovery and, I'm like, that is a potentially significant swing as well. So if we're seeing a marketplace where our frac spreads are starting to get better, there's definitely some upside in the ethane recovery side of the house as well.

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

Got you. Okay. And then, just on your growth CapEx guidance, does that include the acquisition of Cheyenne Connector?

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

Yes. So we have -- if you think about the projects that were in '19, we've got obviously Gulf Coast Express and in some of these we've spent money in '18 as well. You've got O'Connor 2, you've got Cheyenne Connector's, those are the big ones, White Cliffs, the extensions of White Cliffs. The thing that can move around, obviously, is how much we spend, we need to spend on Bighorn this year versus next year, and then I'll take the opportunity to just to talk about how we were able to reduce some of that capital outlook from even what was given late last year by Phillips and we're continuing to push on our projects to get them done more efficiently, to utilize a transformation that the company is going through to really get tighter around our cost controls including capital projects and [via] prioritizing as well . So doing a lot of good things, that's how we were able to reduce the capital.

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

Got it. And then, just one last -- I'm sorry, one last clarification question. So on the higher expenses, the onetime items amounted to $10 million to $15 million. Is that correct?

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

That is correct.

**Operator**

Our next question come from Becca Followill from U.S. Capital Advisors.



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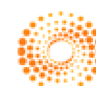

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**Rebecca Gill Followill** - *U.S. Capital Advisors LLC, Research Division - Senior MD & Head of Research*

These are kind of following up on those same questions. I appreciate the color on the cost and the fact that you're -- it's coming down in 2019, but you guys have been really good at controlling cost. Can you give us some more color on what happened to have it go up by $10 million to $15 million, so much relative to what you thought?

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

I appreciate the confidence that we have been pretty good on cost and I think we absolutely have. And I think even with something that came out that was outside of what we expected and what we promised you, if you look at over our long-term kind of range, we are still well below where we were 4, 5 years ago from a cost level and we've added about $4 billion. At that same time, I'm like we were disappointed by this. What was this about? It was about some items that we found in both the South area and the Permian areas where we did reliability work, or we had to do with traditional reliability work around some of our plants come around some of our fields compression, we had to bring in significant third-party help to get them done as quickly as possible, and that really is kind of what drove this. And, you know what? It was a surprise to us, it was something that we are absolutely not happy with. I have many, many times told all of you that we pride ourselves on the promise made is a promise kept and on this one we missed it, I own that, but we also make sure that we are rectifying it and rectifying it quickly. And from that point of view, I'm pretty confident that what I've seen in the numbers in January and February so far we have rectified that and we've taken very swift action.

**Rebecca Gill Followill** - *U.S. Capital Advisors LLC, Research Division - Senior MD & Head of Research*

On the guidance, what percent of your CapEx is going to be self-funded?

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

At currently, what we have, obviously, is the excess with the coverage at around 1.2, we have excess for -- about $100 billion of excess obviously, the sale of propane is going to help us there. So we're off to a pretty good start, Becca, we are, as Wouter alluded to, we're looking at some additional divestitures. And then, obviously, the rest, we will utilize our liquidity and our short-term debt to fund the rest. But the goal is to not have any common equity needs for the whole year.

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

Yes, so just give you straight numbers, I'm like (inaudible) $618 million today, we're not issuing any equity so $618 million stays same, 7.50% of DCF is the midpoint of the guidance, so $132 million is what I would plug in your model.

**Rebecca Gill Followill** - *U.S. Capital Advisors LLC, Research Division - Senior MD & Head of Research*

And then lastly, to clarify, are Bighorn and Gladiator included in the $600 million to $800 million? Of capital?

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

So on Gladiator, their project is going to take some time, as you know, and like we have extended our open season, we are getting some pretty good interest, at the same time before you get from an open season to binding contractors, there's definitely quite some time that, that would take. So if there is cost for Gladiator, it really would be in the second half of 2018 and, I think, it would be fairly de minimis in the scheme of things. Yes we do have cost for Bighorn in the $600 million to $800 million at this very moment and as I said, we are working with the engineering teams to figure out how do we build it, how quickly can we build it and part of what we're trying to do is speed up our overall cycle time on building these things. In the end that becomes more capital efficient, it also means we would have to spend less in 2018 and more of it would move into 2019.



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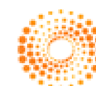

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**Operator**

Our next question comes from Jeremy Tonet from JPMorgan.

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

Just wanted to dive into Sand Hills just a little bit more here. And when you talked about the $10 million to $15 million impact, was this just on the logistics and marketing side? Or was this lost opportunity on the G&P side? When I'm looking at the Permian volumes, looks like it declined 46 million cubic feet a day quarter-over-quarter. Is this all due to Sand Hills? What would that volume have been without that outer share? Just trying to get a feel for it.

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

Couple of questions here, Jeremy. But, yes. As a rule of thumb, the $10 million to $15 million was split 50-50 not exactly, but pretty close between the Permian and the Sand Hills. So that full amount, to answer your question about half of it had effected the Permian, it effected volumes. We had 2 things going on with volumes in the Permian, one was the line strikes that you were down for about a week, 5 days. And then, because of all that reliability work that Wouter and I have been talking about, we saw what -- we saw our assets down for turnarounds and for reliability work, which dampened the Permian volumes as well in Q4. So as we think about moving into '19, we're seeing those come back to normal levels but for those 2 events, we would've seen Permian volumes pretty much in line with our expectations. So those were the drivers, about half of the $15 million hits the Permian, the other half hits Sand Hills directly.

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

That's helpful. And thinking about kind of longer-dated growth in the DJ, just wondering if you could walk us through, again, I guess, how do you think about the economics of bypass versus new plants? You had things out there like (inaudible) Lawsuit, possibly impacting the cooling and so just wondering how you balance all those things and protect your capital investment?

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

Yes, no. So, Jeremy, first off, the latest number of plants that we have built have minimum volume commitments, minimum margins for a significant time period, so that obviously protects our investments very, very significantly. When we kind of look overall at the DJ Basin, what you really see happening in the DJ -- in Colorado is because of people getting closer to urban development that very significant growth that we are seeing in the Front Range and Denver as a whole. Our business model has always been to be good neighbors and, I think, that is serving us very, very well. We have focused on Weld County, which is a much more rural county. We have stayed away from some of the population centers in the Front Range. I spoke about Bighorn, where we acquired a square mile of land to build that plant. It is further away from any type of population, but we've done that on purpose because this is 30 to 40 year asset that we don't want to be close to population center. So I also want to remind you if you think about Weld County and Weld County, I'm like massively defeated 112 it's an oil and gas friendly County and so from that point of view, the way we set up our business model, the way we contract, the way we can face things in over time, really helps us out and bypasses are one of those things that help us out. It's a fairly inexpensive way to get very significant capacity flowing and it is not a long-term solution but it's a great short-term solution to kind of balance and flow the overall kind of volumes that you're seeing.

**Operator**

Our next question comes from Chris Sighinolfi from Jefferies.





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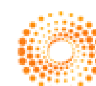

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**Christopher Paul Sighinolfi** - *Jefferies LLC, Research Division - Senior Equity Research Analyst, Master Limited Partnerships*

Sean, just wanted to go back to CapEx, I know you have had a couple on it, but I remain somewhat confused, and I think it's really just the magnitude of the change from I think, Wouter citied what Phillips had said back in December is and then what you're putting out here. I guess, were they assuming things here on Slide 20? Or in addition to Slide 20 that you are now not doing? Or I get efficiencies but efficiencies would seem too large to represent $200 million?

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

I think, it's a couple of different things. There are some items if you think about when Phillips rolled out, Chris, last year that it's moved to a list that would be potential but not in the base plans, so you have some things that moved out. They are not huge but we always have a little bit of capital in some of the -- specifically, in the G&P areas. Bighorn's the big one, that was -- that we've continued and I think Wouter alluded to it, to not only look at ways to do that plant cheaper and less expensive, more efficient, that was a big play, that was a big move since last year in November, December when they rollout as well as the timing. So there is some timing. We're -- as we've gotten more creative, as we sharpened our pencils some of the dollars are not only getting smaller but they're being moved from '19 to '20. And that was a big move as well. And then, across some of the other projects that we had embedded when we rolled out with 66 were also looking for efficiencies, not as big, but they are smaller, but also are contributing to the reduction from the $900 million I think that 66 gave, the $600 million to $800 million range that we gave. So those are probably the 3 primary drivers, lowering, getting more efficient, moving a few projects off and then, potentially pushing some stuff out to '20.

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

Yes, let me be clear on that, I'm like, there's no pushing out of the Bighorn plan. We actually are kind of -- sharpened our pencils, we only sat in the middle of 2020. We now gave you the second quarter of 2020 so it is really about how much of that capital is going to fall into 2019 and how much is falling into 2020.

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**Christopher Paul Sighinolfi** - *Jefferies LLC, Research Division - Senior Equity Research Analyst, Master Limited Partnerships*

Okay. And then, I guess as you think about that point then, Wouter, the financing, I know you guys have, for the last 4,or 5 years, sort of, sold in discrete chunks, noncore assets and then, tapped both institutional and retail preferred markets. Obviously, you had to language in the release last night about no common equity and we've seen an asset divestiture already and you were talking with Michael earlier about things that might be in the hopper there but, I guess, what about the preferred market? Is that still an avenue that you find attractive or necessary or not?

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

It -- I wouldn't say it's necessary, Chris. This is Sean. In term of attractive, it moves up and down, it can be a finicky market, so I don't want to take it off the table, obviously, we've committed to no comment, preferred is definitely not necessary but if the market gets pretty attractive, we were pretty progressive, Treasury Department, my treasure is pretty progressive, so they may walk in and say, hey, that market looks pretty good, do you want to go grab some? But no comment is the goal and definitely don't have to go into the press, but we'll keep an eye on it.

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**Christopher Paul Sighinolfi** - *Jefferies LLC, Research Division - Senior Equity Research Analyst, Master Limited Partnerships*

Okay. And then, I guess the final question for me, you talked to a couple of other the analysts about the commodity sensitivity and I was thinking that you had made the point that if we go back and look at prior slide presentations that, that sensitivity is coming down, I would just noticing as I pulled up for 2018 presentation that even on a pre-hedge absolute dollar amount, it came -- the sensitivity came down from last year to the '19 guidance. And, I guess, in that, is there -- were there contracts even in last year that were reconfigured? Or were there contracts that expired and got replaced by something that's more [fee]? Just thinking about the POP concentration in the DJ, in the volume growth in the region?



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

No, well, Chris, we're always looking at, is there a way we can do things with contracts when they come due, but I think what you predominantly -- while you see this is because we continue to grow that fee-based logistics business very significantly. That business is going to be 50-50 with our processing business in 2019, so we just grow that logistics business very significantly and continue to grow that and that is driving our overall sensitivities down.

**Operator**

Our last question comes from Spiro Dounis from Crédit Suisse.

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

Just wanted to follow-up on our virus question account the commodity price sensitivity relative to the 2019 EBITDA range, so I guess, what I was looking is a little bit of a commodity curve seems to suggest that we'd want a sensitivity that sort of push it down towards te lo end. Is that not the right way to look at it, just trying to a sense if there's a underlying call that commodity sort of stays the same or improves from herel?

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

No, I think if I understand your question, Spiro, it is -- the commodity sensitivities are clearly -- we give of those ranges if you apply the high end and the low end, it is going to be a big driver of how our EBITDA high-end, low-end range moves and how our DCF range moves. The only point I was bringing up is, it's not the only item that you -- you want to say, okay, what are the things that would get you to the low end? It would be lower commodity, it would be probably higher maintenance capital, maybe even a little more growth capital if you are the higher end, i.e. you'd have more interest costs if we're talk about DCF.

And then, of course, the inverse on the upside, right? What are the things that would get you to the high end of your range, higher commodity, less maintenance capital and things of that nature. So those assumptions definitely are a driver to move us to the low and the high end of the range, but they are not the only driver, I guess, is all I was trying to indicate to Elvira.

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

Okay, that's fair. And just one, for clarification, just on asset sales. Right now, your current EBITDA guidance does not actually, sort of, have an asset sale in there, so to the extent there was something sold, we could see your guidance range maybe change?

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

It -- the -- beyond the propane, we've been pretty clear the propane didn't have a -- won't have a huge impact on 2019. As we look to other things, it'll have to be case-by-case. Typically, as Wouter alluded, to we've sold things that are relatively noncore, relatively not big, not huge earnings drivers for the company, but, however, if we were to sell a very large -- and this is a "what if" portion of one the regions, obviously, then we'd have to adjust the range at that point.

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

I -- Spiro, I don't think there is something you want to mull about, that's not something you want to -- should expect, though. It's fairly to minimize the impact of our propane business, there's really not going to be a significant impact on 2019 DCF and we're selling it at a higher multiple than we're investing in, so I think we've done some of these in the past. We'll continue to do some else when the opportunity arrives and I think every



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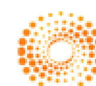

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time when we do this you probably should be excited about it, because it is something that makes a lot of sense to continue to transform the business model that we're working on.

**Operator**

Thank you, ladies and gentlemen. This concludes the Q&A session. At this time, I'd like to turn the call back to Irene Lofland, Vice President of Investor Relations, for closing remarks.

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

Thank you. Thanks, everyone, for joining us today. If you have any follow-up questions, feel free to give me a call.

Have a great day, everyone.

**Operator**

Thank you, ladies and gentlemen, for attending today's conference. This concludes the program. You may all disconnect. Good day.

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