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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q3 2020 DCP Midstream Earnings Conference Call. (Operator Instructions) Please be noted that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your host, Senior Director, Investor Relations, Sarah Sandberg. Madam, please go ahead.

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

Thanks, Lateef. Good morning, and welcome to the DCP Midstream Third 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 slides.

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

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

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

Thank you, Sarah, and thanks, everyone, for joining us. I hope you're all safe and well.

Our team has delivered another strong quarter as we successfully navigate the ongoing challenges of 2020. And I offer my thanks to each and every DCP employee for their continued hard work. As a result of our multiyear strategic evolution, we started this year on a strong foundation, and that has served us very well throughout this period of uncertainty.

Over the past decade, we made investments to fully integrate our value chain to capture more earnings while rightsizing the portfolio to ensure a high-caliber footprint in the country's premier basins. We diligently executed a supply-long capacity-short strategy while optimizing existing assets and functions within digital transformation established in 2016. These strategies enabled us to be well prepared heading into this downturn, and we expect them to accelerate our recovery in a post-COVID world.

Specifically, looking to our Q3 performance, with an unwavering focus on operational excellence, we have maintained top safety and reliability performance while driving emission reductions, and I look forward to talking about this more later in the call.

Turning to our financial performance. As a result of our discipline and optimization efforts, in Q3, our assets generated $331 million of adjusted EBITDA, totaling $963 million year-to-date. We expect to beat our year-over-year cost reduction target of $120 million, and we have delivered 71% reduction in total capital expenditures year-to-date. What started as swift and aggressive self-home measures at the onset of this downturn has now evolved into a sustainable restructuring of our cost bases. Coupled with cost of capital discipline with the proven earnings power of our asset base, and we have generated $152 million of excess free cash flow year-to-date. And we define excess free cash flow as distributable cash flow less distributions and less expansion capital expenditures.

We've delivered our commitment to delever the company with $156 million of debt reduction in Q3 and an improved bank leverage ratio of 3.9x. And despite disruptions in our business from the coronavirus, we remain committed to our DCP 2.0 transformation and sustainability efforts, specifically to advancing our sustainability goals.

Earlier this year, in partnership with Kairos Aerospace, we launched the largest industry-led methane survey in the United States to detect and repair fugitive emissions within our asset footprint. We continue to explore and pilot additional technologies to reduce our Scope 1 and Scope 2 emissions. And these efforts, in combination with our sustainability and DCP 2.0 advancements, were recently recognized by the World Economic Forum. DCP midstream was 1 of 10 new additions to the World Economic Forum's Global Lighthouse Network, which is a community of world-leading companies that have succeeded in the adoption of Fourth Industrial Revolution technologies at scale. Of the 54 total cited companies within the World Economic Forum's Lighthouse designation, DCP Midstream is 1 of only 5 companies in North America and is the only U.S.-based oil and gas company to receive this distinction. And we're so incredibly, incredibly proud of our team for this and for all the other accomplishments this year.

So now to talk through the details of our Q3 results, our financial position and outlook, let me 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.

On Slide 4, you'll see that we had another solid quarter, generating DCF of $232 million, representing a 22% increase in DCF year-over-year and driving $130 million of excess free cash flow, which, again, is after fully funding $20 million of growth capital and $81 million of distributions. Our strong third quarter results were driven by a continued commitment to cost discipline, supported by our DCP 2.0 efficiencies which more than offset an adverse $24 million year-over-year impact from lower commodity prices and dampened volumes.

Our risk-based prioritization of projects, coupled with low product replacement, will drive our 2020 sustaining capital expenditures below the low end of our guidance range. Growth capital slightly exceeded the high end of our range in Q3 as a result of cost overruns on the Cheyenne Connector.

Adjusted EBITDA for the L&M segment saw an 8% increase year-over-year with solid earnings from Sand and Southern Hills, offsetting lower NGL marketing results as pricing volatility dampened in Q3. We saw an increase in NGL pipeline throughput year-over-year, driven by increased ethane recovery, short-haul volumes and Southern Hills extension and the front range in Texas Express pipeline expansions.

Adjusted EBITDA for the G&P segment saw a 5% increase year-over-year despite a decrease in overall G&P volumes over the same period of time. Our G&P performance is a result of increased higher margin wellhead volumes in the DJ Basin and Permian and continued cost discipline throughout our footprint.

Moving to Slide 5. You'll see our solid financial position as we continue to strengthen the balance sheet through this cycle. With 62% of our earnings coming from our Logistics and Marketing segment, and 83% of our margin either fee-based or hedged, our footprint is fully integrated with stable cash flows. We achieved a $130 million or 17% reduction in year-to-date costs compared to 2019, and we believe that the vast majority of this reduction is sustainable. Couple our cost and capital discipline with our strong portfolio of assets, favorable contract structures and strategic hedging program, we generated $152 million of excess free cash flow year-to-date. This has enabled us to lower our debt by $175 million in 2020 and improve our bank leverage ratio to 3.9x, better than our 4.0x target for the year.

With continued solid liquidity of $1.3 billion, our top financial priority is to utilize our growing excess free cash flow to continue delevering the company.

On Slide 6, I want to provide additional color on our Q4 outlook. First, our Q3 volumes have been in line with our second half expectations. With slight sequential decline impacted by planned maintenance in the Permian and on the Discovery asset in the south. We anticipate a sequential increase in G&P volumes as rig and frac crews work within our footprint, and we ended the Q2, Q3 lows of the downturn. In line with our outlook on the Q2 call, throughput on our NGL pipes is expected to decline as commodity prices force increased ethane rejection.

As mentioned earlier, the team has worked incredibly hard to control what we can control and reduce costs this year, more than offsetting the impact of production declines and lower commodity prices. With that being said, we do expect both increased costs and sustaining capital in Q4 as deferred projects are reprioritized. Growth capital for the remainder of the year is expected to be minimal as we finalize expenditures from the Cheyenne Connector and the Latham 2 offload. Finally, we expect commodity prices to be at or above our targets for the remainder of the year.

In all, our Q3 outperformance demonstrates the resiliency and durability of the DCP business model, and we anticipate continued strong execution throughout the remainder of this year.

I want to say thank you to our team for another great quarter and with that, I'll hand it back to Wouter.

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

Thanks, Sean. So before I end our prepared remarks, I would be remiss if I didn't acknowledge this week's election. No, it's too soon to speculate on the future of energy policy. Let me say this. Our consistent strategy is built for the long-term and is not reactive to election outcomes. We will continue to proactively engage in energy policy and advocacy at all levels of government including the federal, state and local officials. We're eager to work with any administration, and we're proud of our track record of operations and our vision for the future. We know from Colorado how to successfully operate within the country's most stringent regulations. And for years, through our DCP Technology Ventures group, we've been seeking the industry's leading cutting-edge technologies to ensure DCP is part of the climate solutions of the future, not a part of an obsolete industry in the past.

As global population increases and quality of life improves around the world, natural gas will be a critical piece of our energy ecosystem for decades to come. As we collectively work to solve for climate change, the oil and gas industry has some of the brightest minds, the best talent, and our methane management efforts should be focused on keeping it out of the air, not keeping it in the ground.

So let me move to Slide 7. I want to offer some clear insight into our strategic priorities. First, our vision to be the safest, most reliable low-cost midstream service provider serves as our cornerstone foundation. Through our dedication to sustainability, financial discipline and strength and our DCP 2.0 transformation, we continue to drive toward this vision and long-term success. We have evolved our focus on operational excellence to encompass a broader set of environmental, social and governance goals, which enhance our sustainability. Although we've had a strong commitment to sustainability for years, including air emission targets in every single DCP employee's compensation since 2007, and our team has responded to our 2020 call to action on the ESG with vigor and innovation. We've made step-change improvements in our emissions and launched the country's largest industry-led methane survey. But we know we must look beyond the 'E' of ESG. We've also published our inaugural Sustainability report, established a Sustainability Council and an Inclusion and Diversity committee, continued our engagement and investment in our communities, and maintained top safety performance and more.

In tandem with our sustainability efforts, we remain dedicated to further optimizing our business, piloting new technologies and ultimately, leading the midstream industry and innovation through our DCP 2.0 transformation. These initiatives, combined with our multiyear evolution to become a fully integrated midstream service provider and our substantial post-restructuring efforts, have set the company up extremely well for long-term success.

Moving forward, we will maintain a laser focus on our best-in-class cost and capital discipline, as we transition to a lean manufacturing model, prioritizing returns rather than capital growth. As a result, we're generating sustainable excess free cash flow, which is being utilized to improve our leverage and strengthen our financial flexibility and stability. Debt reduction is our top capital allocation priority, and we have line of sight to delever our balance sheet and hit our mid-3x bank leverage target, all while offering a competitive distribution to our investors.

In all, our strategy is built to support a thriving company, creating long-term value and driving increased unitholder return

And with that, I want to say thank you again to all of our employees for their hard, hard work, and to all of our investors for their continued commitment to DCP. We look forward to taking your questions. With that, Lateef, why don't you kick us off?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jeremy Tonet of JPMorgan.

Joseph Robert Martoglio - *JPMorgan Chase & Co, Research Division - Research Analyst*

This is Joe on for Jeremy. Wanted to start around some of the upstream consolidation recently. Do you see that impacting your business at all? And also, do you think midstream could kind of follow upstream's footprint and we could see some midstream consolidation as well also at some point?

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

Yes, Joe, let me take that one. I think you're absolutely right. I'm like we're seeing consolidation on that. On the producer side, I think we're going to see consolidation on the midstream side. The question is, when is that going to happen?

If I look in general at where some of that consolidation has impacted us, I look at it from a producer point of view as a net positive for us. And you'll see here in the DJ Basin, for instance, you get larger producers. And I think that can bring some efficiencies to what is a great basin. So net-net, on the producer side, I look at it as a good thing.

I think from a midstream point of view, we've been talking about the need for this industry to consolidate for years. We expected it kind of in '15 and '16. It didn't happen. My expectation personally, yes, it will happen here. The industry, the midstream industry, is kind of build in an infrastructure, in many cases, for about 14 million barrels, 15 million a day of crude oil production. We were on track to hit 13 million this year. We went down to 10 million, and we're probably going to end somewhere around 11 million and I don't think that's going to change massively in the next year. So yes, the midstream industry needs to consolidate, needs to come together.

I think it needs to happen the way it happens on the producer side right now. So if low to no premium type of deals, stock for stock, unit per unit, so that all the synergies you create really flow through to respective shareholders.

I think from our point of view, if you think about our strategy that we've had for the last couple of years, we've had a strategy of being supply long, capacity short. We believe we're going to come to the end of the super cycle of growth that we have for 10-plus years. And that was going to change. So we didn't want to own the last pipeline, the last fractionator, the last gas processing plants. That's why we've been doing a number of offload and other things.

We started working on what I would call a lean manufacturing type of profile. DCP 2.0, our digital transformation, we have a leading digital platform, which would lend itself really, really good. And then I think if you look at what we've done this year, and what the team has accomplished from a cost point of view, we completely restructured our cost basis. We are a low-cost operator and a lean manufacturing kind of digital enabled low-cost platform lends itself, I think, really, really well, on the consolidation cycle.

Joseph Robert Martoglio - *JPMorgan Chase & Co, Research Division - Research Analyst*

Okay. That's very helpful. And then, I also wanted to ask on ethane rejection. And just, I guess, what are you seeing currently around ethane recovery for the fourth quarter? Does it seem consistent with the levels in the third quarter? And also kind of, I guess, are you seeing any impacts from ethane cracker outages due to hurricanes?

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

Yes, Joe, this is Sean O'Brien. We are seeing a little bit of a reduction in the recovery level. So obviously, an increase of rejection as we head into Q4. Not driven heavily by some of the disruptions, more so the frac spread, the frac spread has tightened a little bit. And we're seeing -- the good news is it's not full rejection. I think we were somewhere around 35 a day on the rejection side in Q3.

Just to remind you, from our portfolio standpoint, we're in the 90 a day range in previous quarters. So quite a bit of -- it came off quite a bit. I think we think we're going to head back up a little bit in Q4. That's what we're seeing so far this year, more so driven by frac spread, not stronger gas prices. We're all rooting for ethane, which many times correlates with the gas to start moving up, and then we'll see that back off.

So what we're calling it is sort of partial rejection or partial recovery, whichever way you're looking at it, but definitely less recovery in Q4 so far.

Operator

Our next question comes from Shneur Gershuni of UBS.

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

Maybe to start off here. I just want to -- wondering if we could go through kind of the volume cadence on your system? Originally, the expectation was that second half volumes would exceed second quarter. Third quarter is down a little bit. Was it more about the shape that it was supposed to be in 4Q? Is it the maintenance items that you just sort of mentioned in the prepared remarks?

And maybe as part of the question, if you can give us an update on where you see rigs on your footprint by basin, what you're seeing in terms of frac -- completion crews and so forth? Just kind of wondering if we can get a little bit more color on that.

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

Yes, Shneur. Let me start, and I know Wouter has been in contact with a lot of the CEOs of our producers. So he may need to talk rig counts a little bit.

But in terms of the trends, I think you're on it. We definitely had, in Q3, some maintenance specifically in the Permian. We saw some of that coming, but that definitely impacted some of the volumes. Obviously, they're not long term. We're in and out. Everything went as planned. Also on the Discovery system, which would impact the South, we saw some maintenance. There is a little bit of shape. I think that's what you're alluding to, to a stronger Q4. In my read remarks, I gave a little bit of color that we do see the G&P side strengthening a little bit in Q4. And then let me give you some other stats that I think are important.

If you think about exit rate to exit rate, I know we're looking at a lot of average Q2 to average Q3. But if you look at the exit rate, i.e., coming out of September versus coming out of June, the DJ was up 5% coming out of September versus June. The Permian was up 3% to 4%, and that was even with some outages. And then, this one is pretty strong, the South, again, predominantly driven by the Eagle Ford, was up 10% coming out of Q3 versus Q2. Midcontinent is kind of on a natural decline and it wasn't impacted as much by the shut ins. All those other 3 areas were, which is why you see some of those upticks.

So by and large, I think as we exited Q3, things were in line with what we thought. I think we think things will get a little bit stronger in Q4.

Last thing I'll mention before I hand it over to Wouter for some of the rig stuff. Remember that obviously, where we're seeing some of the growth is some of the areas that we have the better netback, some of the areas the producers have to better netback. So you saw it in our own margins. Our G&P margins performed quite well. That's because the DJ is performing well, and the Delaware. They're our higher return areas, and they're also the higher return areas for the producers.

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

Yes. Maybe -- Shneur, Wouter here. Just kind of a couple of thoughts on what we see with our various producers. I think for most of the producers, I'm like, there tends to be a bit of a story in like, hey, we hope that we can keep things flat year-over-year from 2020 to '21. But it's also a little bit too soon to tell depending on what is going to happen with the economy, what is going to happen with the recovery, what's going to happen with vaccines and the coronavirus. But I would say that a lot of our producers, I would say, are cautiously optimistic. We have seen some people bring back some rigs. We have seen people bring back some completion crews.

So at the same time, I think it's a bit of a wait-and-see still here, and I think we're getting a lot more clarity here in the coming months.

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

Okay. Fair enough. Maybe to follow up on the last question there. I hope I coined your phrase correctly here, digitally-enabled lean manufacturing. Just kind of curious. Is that your view that, that is the way to basically increase your sustainability ratings and that's kind of the sustainability focus for the company? It kind of seems like you've built kind of a best-in-class mousetrap in terms of reducing costs and optimizing capital. Does that become a strategy for you to pursue M&A at some point, either whole companies or acquiring some assets here and there? Obviously, once your leverage is in check. I'm just kind of curious how you're sort of thinking about that on a holistic basis.

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

No. I think in general, Shneur, I'm like you paraphrased it really, really well. Like this has been our strategy for a long time. We believe that industries, once they go through a major growth cycle, you tend to go into a consolidation cycle. You've got to be ready for that.

So what we've been doing over the last number of years, on the one hand, is find prudent growth, even though we didn't -- or we wanted to be supply long, capacity short, so not go after all pieces of growth. And at the same time, built that lean-manufacturing, digitally-enabled platform which really -- when you get into a consolidation cycle or a cycle of less growth, you can get as much out of your asset base as you want. So that is absolutely in parallel. We've been advancing these two pathways.

Obviously, I kind of look at it, if you think about consolidation, I'm like, you got to have the right to consolidate, correct? You've got to have the right to take whatever you have and build a better mousetrap versus companies that are stand-alone. And I think there's absolutely no doubt about it. What we have done them and what this team has gone over the last 4 to 5 years around the digital transformation is best-in-class in our industry.

It's not just a world economic forum who says,we're the only U.S.-based oil and gas company that is really applying Fourth Industrial digital tools, Fourth Industrial Revolution digital tools to tune our business model. I'm like -- so I think there's a lot of great that the team has done. It is great if you keep the company stand-alone and keep to kind of survive and thrive stand-alone. I think it is also a great model to partake in a consolidation cycle.

Operator

Our next question comes from Spiro Dounis of Crédit Suisse.

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

Wanted to start out with buybacks, which are obviously trending these days amongst your peers. And I know last time we caught up, sounded like deleveraging was really the only thing on your mind for the next 18 months or so. It sounds like that's still very important for you. But here we are kind of below 4x at this point. So just wondering if that's still the case? And I guess, what are you looking for to maybe change that view and increase your appetite to do something like a buyback?

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

Spiro, a couple of things right off the bat. I think your assessment is accurate. I'm incredibly pleased and impressed with the company's ability to generate excess free cash flow. We've stayed true to our plan and strategy of delevering. We've taken $175 million off. I still think there's some work to do there, Spiro. But the good news is we're well on our way. We're generating a lot of excess free cash flow. I see that growing next year. And I want to make sure that we stay focused on that approach. And I think that's going to keep the company going in terms of a strategy for the foreseeable future into 2021 for sure.

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

Yes, Spiro, maybe to add just a little bit to that. I think buybacks as a strategy or as a capital allocation tool does make sense for certain companies. But our priority right now is to delever the company. We have delevered year-to-date already $175 million, and that's going to grow here in the fourth quarter, and it's going to grow next year. So for us, getting the balance sheet to, call it, a 3.5, mid-3s type of leverage ratio is going to be the key priority.

One thing that I think is interesting. If you look over the last 10 years, where our industry has been criticized by sell-side analysts, by buy-side analysts, by investors in this industry, by generalist investors. It has all been about hey, this industry is not good in allocating capital. And that is a key criticism for the industry. Buybacks make sense, but buybacks make sense, when: a, you have a balance sheet that's strong; and b, your yield is high. If one of those is not there, it is absolutely not the right time and it's not the right capital allocation strategy.

And so for us, having a strong balance sheet is the most important thing right now. It's good for equity holders. It's good for debt holders. And in my mind, it's an absolute no regret move for DCP to continue to strengthen the balance sheet at this very moment.

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

Understood. And I appreciate your discipline there. Second question, just on the guidance. I think last quarter, you talked about maybe being closer to the low end. And Sean, sorry if I missed in your remarks, just around the fourth quarter and the trajectory there. But it just seems like that's a fairly conservative figure at this point, even the midpoint, other guidance would imply down quarter-over-quarter. So just give us a sense of where you are in that spectrum right now.

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

Well, I appreciate that, that commentary. I just want to kind of take people back a little bit because this year is such an interesting year and so many things have happened. So we reissued our original guidance. So not a COVID lower guidance or other stuff. We reissued our original pre-COVID, pre-OPEC, OPEC plus, pre-global pandemic guidance just 3 months ago.

And we are, to your point, we're well and well on track. So I think if you look at kind of the end of the year, we're approaching the near, kind of the midterm on the EBITDA. I think if you look at the end of the year, we're going to be well above the midpoint of DCF. And at the end -- and even currently, at this very moment, if you think about excess free cash flow, we have already surpassed the low end at this moment, 9 months in, and obviously, Sean and I have the advantage of looking at October as well. So we feel really, really good about that bit as well.

In the end, I think what we're doing, it's all about the controlling what we can control. I think the team has executed tremendously strong. We were out of the gate very fast on self-help and other things, and you're seeing that in all the numbers. So if you've got to rewind the clock kind of a year ago, and you could say that, you know what, you're going to be at or above most of your guidance items in a world where you have negative crude oil prices for a while, where you had OPEC and OPEC plus doing some interesting things to U.S. production, and you had a global pandemic, the first one and probably of its size kind of in the last century, and you are going to do what we're doing here right now as a team, I think you're pretty happy.

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

Yes. No, certainly impressive given that context. Last one, if I could, just a quick follow-up to Shneur's question with regards to DCP 2.0 being a highly valuable tool for M&A. Do you have a sense on where you are in terms of if you were to purchase someone else's processing plants, run of the mill kind of average and you start running it and integrating it and overlaying DCP 2.0 on it. On day 1, are you starting out with, I don't know, 30% lower cost? How do we actually think about your advantage over the average once something is overlaid with DCP 2.0?

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

That's a tough one. It's a good question, Spiro. I appreciate you answering it. I think I'm going to be -- I'm going to choose to be a little coy around this. We have built a mousetrap that is a very good mousetrap. You have seen our safety getting better. You've seen our reliability getting better. You will see our emissions getting lower, all while doing -- working and executing this with less people, with better service for our customers.

Clearly, something is happening and working here that is working quite nicely. We have third-party companies come to us and think about, hey, can you help us with this? We -- I spoke about the World Economic Forum. And it's not a small feat, like that is a global -- they look globally, not just in oil and gas companies. They look at every single company in the Street, in the world on people who are actually making a difference. And we clearly make a difference. And we're going to continue to move forward with that, to execute on that and to continue to lean the system out and be more efficient. And can we do it then to other people? Or with -- together with other people or for other or with other people's assets? The answer is absolutely yes, but we'll see how we'll play that out.

Operator

Our next question comes from the line of Elvira Scotto of RBC Capital Markets.

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

So just to follow-up on the upstream M&A impacting midstream. I understand that having a larger, better capitalized customer base is a positive. But how do you think it affects midstream in terms of upstream contracting power, I guess, for lack of a better word?

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

It's a good question. I think it's -- I would say it depends. I think it depends on what basin do you play, what alternatives do produce a task. I think, in general, and I think this is why consolidation is very important. I said earlier that you have an industry that may be built for 14 million, 15 million barrels a day of capacity and all the infrastructure is kind of lined up to that. So you have overcapacity.

So if you're in a place where dealing with a larger customer and there is significant overcapacity, then there probably is going to be pressure on rates when there is a renewal. So I think that's what you want. You've got to continue to lean your company out, to take cost out so you can say you can work with that. But I also think that, overall, consolidation is going to be important because you're going to be able to kind of direct gas to the most efficient assets within a footprint.

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

That's very helpful. And then I appreciate all the comments that you made on lowering emissions in your methane emission survey. Can you talk a little bit more around energy transmission? So outside of lowering methane emissions, how do you see DCP participating in the energy transition? Is there any potential to repurpose some of your assets? I mean, is there potential to do carbon capture? Just kind of thinking a little longer term.

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

Yes. I think over the last 2 that you're kind of talking about, the answer is yes and yes, and we're looking at a variety of different ways around our asset footprint to deal with that.

I think one thing that's really, really important, Elvira, is that you can't just sit here and think about, hey, this asset base is going to be gone shortly. I know that people are talking about terminal values, which is a really, really strange concept to me. We're in the natural gas business, and natural gas will be around for decades. And it's going to be around for direct electrification or it's going to be around as a backup to a growing renewable energy mid mix. It's going to be around as a lot of our industry rely on our products. Think about the chemical industry. Think about a slew of other different industry. So this business is absolutely going to be around for a long, long time. So our focus is to be the best operator. Be safe, be reliable and continue to reduce your environmental footprint.

And I highlighted that for almost 15 years. I'm like, that's 1.5 decades. Every single employee within DCP Midstream has emissions performance as part of their paycheck. And it's something that we have never spoken about, but it's something that we always look at. So this is kind of inherent. It's the same way as safety for the same 1.5 decades or longer, people get paid on being -- making sure that you're the safest company out there. So we -- I spoke about the largest -- the Kairos Aerospace study that we're doing on focus to keep basically fugitive emissions within the pipe, within the compressor, within the gas processing plant. So our focus is to be on -- is keeping it out of the air, not keeping it in the ground. I think that is the key thing to focus on.

This industry is going to be around. We're going to be a major player, and we believe that the oil and gas industry is going to be the major player in actually solving for climate change. And I think DCP is going to be a strong -- has a strong role within that for years and years and years to come.

Operator

(Operator Instructions) Our next question comes from the line of Tristan Richardson of Truist Securities.

Bronson Wells Fleig - *Truist Securities, Inc., Research Division - Associate*

This is Bronson on for Tristan. You guys have talked about your contracts in G&P and mitigating risk, which was a meaningful benefit in 2Q during the commodity volatility. Were some of those revenue floor features a benefit to G&P in 3Q? And, just given your expectations for lower C2 volumes in 4Q, should we expect some of those revenue floors to perhaps kick in or be a benefit here in G&P in the 4Q period as well?

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

I think what you're talking about is some of the incentives that we gave for people to stay on our systems. Those were very temporary incentives, but have we seen the benefits of those? Absolutely. I'm like one of the parties that we gave that incentive to, we expanded our contract for multiple years.

So there is a long-term benefit to doing the right thing for your customer. We strongly believe that. And is there going to be kind of a Q4 ongoing impact of that? Now that program was really focused on during, I would say, May, June time frame, when customers were looking at taking wells offline. And I think we are well beyond that right now.

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

Yes, Bronson, and just to add a little more color. It was exactly tied to the shut-in environment that we saw where a lot of producers were trying to figure out which wells were profitable, where were they going to shut in while they were adjusting to lower demand. So 2 things have happened since then. Obviously, the demand has come back to some level. And we were very helpful with some of those producers during that period to try and make sure that our assets receive volumes and kept running during that time period. But we're beyond that. Obviously, demand has come back, as I've mentioned, and commodities also strengthened some since then as well.

Operator

Thank you. At this time, I'd like to turn the call back over to Sarah Sandberg for closing remarks. Ma'am?

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

Great. Thank you, all, for joining us today. If you have any questions, please don't hesitate to reach out to me and have a great week.

Operator

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