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DCP - Q2 2018 DCP Midstream LP Earnings Call

EVENT DATE/TIME: AUGUST 08, 2018 / 4:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2018 DCP Midstream Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Irene Lofland, VP of Investor Relations. You may begin.

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

Thank you, Gigi. Good morning, everyone, and welcome to the DCP Midstream Second Quarter 2018 Earnings Call. Today's call is being webcast and the supporting slides can be accessed under the investor 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 scheduled 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. With that, I'll turn the call over to Wouter.

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

Thank you, Irene, and thanks to everyone for joining us. We continued our positive momentum into the second quarter with strong results driven by our fully integrated portfolio and demonstrating the impact of DCP's strategic execution and operational excellence.

Starting with financial highlights. We generated adjusted EBITDA of $270 million and distributable cash flow of $166 million, which translates to a distribution coverage ratio of 1.08x for the second quarter. Notably, we continue to deliver on our commitment to strengthen our balance sheet and delever the company, illustrated by an improved leverage ratio of 3.6x as of June 30.

Due to these strong results, coupled with our expectation of a solid second half of the year, we have strengthened our 2018 DCF guidance range between $635 million and $670 million, which Sean will discuss later in the call.

Our dedicated focus on expanding and optimizing our diversified asset portfolios continues to drive strong earnings, and we're proud of our track record of successful growth execution.

Last week, we're very pleased to bring our Mewbourn 3 plant online ahead of all announced timelines. This plant completes an important step toward more than doubling our current capacity by adding up to another 1.5 Bcf per day to meet the needs of our customers' continued record production in the DJ Basin.

The O'Connor 2 plant is now under construction, and we're making good progress on our 12th plant, which we've recently named Bighorn. These 2 future plants are expected to bring our total capacity in the basin to approximately 2.3 Bcf per day, ensuring a bright future for the DJ Basin and our producer customers.

In the Permian, the Sand Hills pipeline capacity ramped up to 425,000 barrels per day, 3 months in advance of expectations and the Gulf Coast Express gas take away pipeline is now fully subscribed.

Across our asset base, we're seeing volume growth in areas where we have existing capacity, providing capital efficient margin growth with little investment. Lastly, we recently announced plans to further extend our vertical integration by securing an option to acquire up to as 30% ownership interest in 2 NGL fractionators within the Phillips 66 Sweeny Hub on the Gulf Coast.

These are the latest examples of our ability to deliver on a comprehensive growth strategy while also increasing our capacity utilization in the country's top-tier basins, meeting our customers demand, elevating our competitive advantage and driving increased cash flow.

Shifting to the next slide. I'm excited to talk about recent updates of some of our strategic growth projects. As we discussed on our last call, over the past 6 years, we have transformed our footprint by investing in fee-based logistic assets to augment our large gathering and processing position, which historically accounted for about 90% of our adjusted EBITDA. This strategic shift has resulted in a much more balanced asset portfolio with adjusted EBITDA now comprised of approximately 45% Marketing & Logistics, and 55% G&P.

As you can see on this map, we have a terrific integrated and diversified footprint, which provides great choices on where we can allocate our capital, allowing us to select the best projects, which are lower risk and higher returns. We continue to see tremendous opportunity in the DJ Basin and have strengthened our position by bringing the 200 million cubic feet a day Mewbourn 3 plant online just last week. Within the basin, Mewbourn 3 is our 10th plant, increasing our total capacity to over 1 Bcf a day. All of our DJ Basin customers immediately benefit from this increase in capacity, and we expect volumes to ramp quickly. We're excited to bring this plant into service ahead of all announced accelerations, as we continue to deliver on our growth projects.

Importantly, we completed construction of Mewbourn 3 and its associated field infrastructure went over 1 million injury-free man hours. That is a remarkable feat. And I want to highlight the incredible dedication our employees and contractors have to safe operations across our entire asset base.

Looking to the future, construction is currently underway at our O'Connor 2 plant, which is expected to be in service in the second quarter of 2019 with the capacity of 300 million a day, including up to 100 million a day bypass.

Additionally, the Bighorn plant, our 12th plant in the DJ, is progressing well and is expected to further meet the projected needs of the basin with up to 1 Bcf a day of capacity including bypass.

Inclusive of Big Horn, our total future capacity in the DJ Basin will be approximately 2.3 Bcf a day, which is more than doubled our current capacity.

Here is the really important story, as we've seen some other basins, a singular focus on just processing expansions may result in constraints and bottlenecks in other areas for our producers. At DCP, we provide a comprehensive approach for all of our customers. We are driving vertical integration with downstream NGL and gas takeaway growth projects to ensure our customer's midstream needs are reliably met from the wellhead to the NGO (sic) [NGL] markets. And let me highlight a few examples. In the DJ, we're expanding NGL takeaway capacity through the Southern Hills extension via White Cliffs that, that will add 90,000 barrels per day in the fourth quarter of 2019. And looking to the Permian, we expanded our Sand Hills NGL pipeline to 425,000 barrels per day, 3 month in advance were announced time line, resulting in increased volumes and cash flows earlier than forecasted.

And moving to Slide 6. We're expanding our logistics value chain even further by via Sweeny Hub. In partnership with Phillips 66, we recently secured an option to acquire up to as 30% ownership interest in 2, 150,000 barrels per day NGL fractionators to be constructed within the Sweeny Hub on the Texas Gulf Coast. This is a very capital-efficient opportunity as our $400 million investment will not weigh on our balance sheet until these option is exercised in late 2020 at the in-service date of the fractionator.

The Sweeny Hub provides a critical market alternative to Mont Belvieu, and ensures adequate fractionation capacity for growing NGL production, further optimizing our Sand Hills and Southern Hills pipelines, while driving fee-based earnings growth.

And the option to partner with Phillips 66 in these new fractionator is not only an important component of our larger multi-year growth strategy, but it also allows us to add and expand relationships with strategic customers as we extend the footprint to the growing petrochemical markets and export facilities in the Gulf Coast region. With that, I'll turn it over to Sean to take you through our financial results.

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

Thanks, Wouter. Today, I'm excited to share the details of DCP's strong second quarter driven by robust cash flows from every component of our diversified portfolio.

Starting on Slide 7, we continue to deliver on our financial commitments, with Q2 adjusted EBITDA of $270 million and distributable cash flow of $166 million. Our Logistics & Marketing segment continued the solid momentum we built in the first quarter, reflecting higher earnings in pipeline capacity utilization from strong NGL production growth across all of our pipelines. We've added significant fee-based cash flows and are quickly filling up new capacity additions brought online through our accelerated expansions on Sand Hills. An additional driver of these record volumes is the increase we saw on ethane recovery in the second quarter, contributing an additional $6 million of DCF for Q1 and Q2.

Turning now to our Gathering and Processing Segment, we delivered strong margin growth over last year with our key focus on driving more cash flow from our diversified asset base, to improve reliability and efficiencies and also from optimization benefits driven by our DCP 2.0 transformation. Additionally, our G&P assets saw substantially higher volumes across our positions in the Midcontinent, Eagle Ford and DJ. Both filling up existing capacity and driving towards quick utilization of new projects coming online. All of these drivers results in $40 million of growth in our G&P results compared to the second quarter of last year.

As I guided on our last earnings call, costs were up in the second quarter due to higher expected maintenance and reliability spend, coupled with a step-up in our investments in the company's transformation efforts. Looking to the second half of the year, we anticipate cost remain at Q2 levels, as we bring new capital projects online and invest in connecting additional volumes across our portfolio.

And as Wouter mentioned earlier, we are strengthening our DCF guidance range to between $635 million and $670 million, elevating our midpoint to about $650 million. This update is driven by our strong first half of the year performance and our unparalleled execution around bringing growth projects online earlier than originally forecasted. All of this is translating to our confidence in continuing to deliver strong financial results through the remainder of the year.

On Slide 8, I want to take a moment and focus on the extraordinary growth we've seen across the entire value chain. First, on our NGL pipeline, Sand Hills volumes were up 55% and Southern Hills is up 30% over the last year. This volume growth has helped us deliver strong EBITDA multiple returns on our Sand Hills expansion projects, and will drive terrific returns on our White Cliffs extension via Southern Hills.

On the G&P side of our value chain, we saw strong double-digit volumes growth across many of our Permian Basins. We continue to see the Eagle Ford roar back with volumes up 30% from last year. The DJ continues to be one of the best basins in the country where we saw 15% volume growth in the last year, and this trend will continue with our newly announced Mewbourn 3 plant, that went into service last week, adding another 200 a day of capacity.

Also, Midcontinent volumes grew by 10% in the last year, driven by continued focus on optimization and reliability. The Permian was down compared to second quarter of last year, primarily due to operational factors. However, we believe that trend has shifted and is now on a positive trajectory with volumes up 5% from the first quarter and expected to grow the remainder of the year.

All of this growth continues to demonstrate the strength of our diversified portfolio, continued focus on executing high-return, lower-risk projects and our transformation from a G&P company to a fully-integrated midstream provider.

On Slide 9, I want to underscore an improvement in financial metrics with our second quarter bank leverage ratio 3.6x, distribution coverage of 1.08x, coupled with ample liquidity and financial flexibility. All this execution continues to move us forward toward our goal of investment grade.

We've made notable progress on delevering and strengthening our balance sheet through successful recent capital markets execution. Recently, we've prefunded overgrowth by executing close to $1.2 billion of financing transactions in the capital markets, including issuances of preferred equity and our recent $500 million bond transaction.

Lastly, we continue to actively manage our commodity exposure via investments in fee-based growth and our hedging program. We've recently reached our goal of approximately 80% fee and hedged for the remainder of 2018. We're growing our logistics asset base and watching for market opportunities to layer on additional 2019 hedges. Resolving in 2019, currently at about 65% fee and hedged as we stand here today. And with that, I'll turn it over to Wouter to close on Slide 10.

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

Thanks, Sean. On the yields of a great first quarter, we continue to generate strong results, higher distribution coverage and lower leverage. In the second quarter, we lowered leverage as 3.6x and generated $166 million of DCF. Year-to-date, we generated $337 million of DCF, leading us to strengthen our guidance. As a second key point, we're demonstrating our competitive advantages as a fully-integrated midstream provider by successfully leveraging and expanding our G&P footprint to grow our lower-risk and higher-return, fee-based logistics business. In a few short years, we have strategically balanced our portfolio between our 2 segments, as we expand our footprint across the value chain and expand our service to our customers in countries Permian Basins. Yet, we aren't just investing in organic growth projects, beyond the steel pipes, we're undergoing a massive technological transformation via DCP 2.0, as we worked to fully digitize and automate our business.

On top of that, where there are positive trends in volume growth throughout notable basins, we stand ready to capitalize on this recovery with existing capacity and strong customer relationships.

Finally, we continue to execute a disciplined capital allocation strategy that is creating long-term momentum and increased cash flows. In the DJ Basin, we're delivering on our commitments to increase processing and bypass capacity, while also providing the needed NGL in gas takeaway infrastructure for all of our producer customers. Our logistics footprint in the Permian continues to expand with construction underway for both the additional Sand Hills expansion and the Gulf Coast Express pipeline. And further down the value chain, other option in the 2 new fractionators within the Sweeny Hub, is an important component of our focus on vertical integration.

In summary, we're transforming our business via our multi-year, comprehensive growth plan and our DCP 2.0 transformation efforts, while focusing on strong returns and maximizing our integrated value chain. Thank your again for joining us today. And Gigi, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Shneur Gershuni from UBS.

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

Just to start off a little bit here. As your note in your prepared remarks, you posted some pretty good coverage and this -- it doesn't even include the upside from Discovery potential and so forth. But when does the conversation on IDR conversions begin? (inaudible) recognizes, ask the question that Enbridge might be a little busy working on some simplifications now but when -- what do you think is the timeline or glide path that we should be thinking about a potential IDR conversion down the road?

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

So Shneur, I'm like, thanks for your question and thanks for acknowledging the good results here. So as it pertains to IDR conversion and when does the discussion begin, we have -- and I've mentioned this a number of times publicly, we continue to have and constantly have discussions about what do you do with IDRs? Where are your sitting in the life cycle? What is the right time to kind of deal with the IDR conversion? And I have kind of said "Hey, it's not a matter of if we will do and IDR conversion, it's more of a conversation around when will you do it, and you want to do it out of the position of strength where you have enough coverage." I've told many times before what we do not want to do is an IDR conversion and buying in the IDRs and then at the same time, giving a lowering of our distribution to our unitholders. We don't believe that is the right thing to do. This $3.12, it's tremendously important to us. In the history of the company we have never lowered distributions to our unitholders, and we don't intend to start with that right now. So it's about when is the right time? We haven't been in the equity market since early 2015. So Sean and his team have done a terrific job on making sure that we can finance the growth that we're having, the very accretive growth, without having to tap the equity markets. And so for us it's about building coverage. And what you mentioned already is that, that coverage is building fairly significantly here, the outlook for this year is very good. Obviously, for next year, the outlook is probably even better. When your start doing your models. So the discussion is ongoing, and when we believe all that it's ready to do this between our Phillips 66, Enbridge, DCP the special committee, we obviously -- we'll let people know, but discussions continue to be on our way around this subject.

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

Fair enough. I appreciate the commentary. Just as a couple of follow-ups. I was wondering if you can sort of share your view on the DJ. I mean, you see some of the E&Ps like Noble and (inaudible) adding capital. At the same time, there's this ballot initiative in Colorado. Do we read the additions of capital by the E&P as the expectation should be there's no change in the regulatory environment in Colorado, and things continue to ramp-up? I'm just, kind of, wondering on kind of your take, if you're even able to opine on this at all.

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

Well, obviously, I can on opine on it, what it means from our side as being one of the largest, if not the largest, midstream service provider in Colorado and into the DJ Basin. So let me try to [unraffle] your question a little bit because there's a number of items in there. So let me, maybe, first start with ballot initiatives. Every 2 years, we go through this here in Colorado. Give a little bit of insight. The oil and gas industry here in Colorado is absolutely a cornerstone of our states' economy. Industry has a total annual economic output over $30 billion. We're supporting over 230,000 jobs. So it's a massive industry. There've been efforts like this in the past, and I think the voters of the state of Colorado are pragmatic borders. They understand the positive impacts of our industry. And they've opposed types of these kind of extreme measures in prior elections. If you go to Initiative 97, it's not supported by either candidate running for Governor, not on the Democratic side, not on the Republican side. To just kind of put this in perspective, former U.S. Secretary of the Interior Ken Salazar, he called an initiative like Initiative 97 fundamentally unconstitutional. So if you then also look at what are the things that are opposed to that, there's a pro-property rights initiative, Initiative 108, turning record signatures for the ballot, and that would provide very significant protection against any takings by by municipal governments or other government levels. And here is, I think, what is it the important things. We, for us, for DCP, we've always been very proactive in mitigating risk for DCP and for unitholders. We're executing a business model that allows for stages of growth. We are not a "hey, go all in, put every chip on the table." but we're kind of looking into increments that is what the Bighorn plant, Plant 12 is all about. How can you do it in 1 Bcf of capacity in different increments. So agile operations, that can respond to any environment. But here's, I think, what's the most important thing. Let's not put cart before the horse here. Secretary of State has not yet validated a signal signature for Initiative 97, and this is an industry that provides affordable energy and great paying jobs for Coloradans, we're lowering carbon emissions as an industry. We'll continue to make sure that we get to the right outcome, and I think the voters of Colorado will get us to the right outcome as it pertains to any of these initiatives.

If your think about -- their bigger question about what does it mean for producers and -- yes, you're absolutely right, you're seeing some produces that are now talking about "hey, we're seeing constraints in part of -- different parts of the country in the Permian therefore, we're going to allocate rigs and higher capital into the DJ Basin." And I think what does that speak about again, Shneur, is about the great balanced portfolio that we have. Our assets are very geographic diverse. We don't have a single asset that makes up a vast majority of the company. If your look at the different pipes, the different G&P assets, nothing makes up more than 20% of our earnings. And some of the tightness that you're seeing in different parts of the area are meaning that a place like the Eagle Ford it's is not 30% in volumes, why? Because producers have moved rigs out of the Delaware Basin onto our acreage in the Eagle Ford. We're gonna see the DJ get more activity because other people are moving things out of the Delaware Basin into the DJ Basin. So if you take all of this together there's a lot to be -- wood to be chopped between here and the elections in November. As an industry and as a state I think that we will get to the right answer. And in the meantime, for us, for DCP, things are going really well on the diversified portfolio that we have. It's really playing well in the current environment.

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

Final question if I may, just to -- turning to White Cliffs, I believe there's an open season going on. When you guys first announced the initiative with (inaudible) group, you talked about 90,000 a day, but potentially expendable up to 120,000. Sort of given these shifts in capital, has there been enough demand in the open season to actually consider going right to 120,000 right away? Would it be more cost-effective to upsize initially? Just any thoughts around demand expectations in the potential for it to get to 120,000.

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

Yes. I think that's probably a little bit too early at this stage, Shneur. I think as it pertains to what were we doing with the Southern Hills expansion via White Cliffs and the open season. In the (inaudible), we wanted to make sure is that people know that there was a pathway that you could go from the DJ to the Texas Gulf Coast and you can do that on an open access pipeline. In the end, our philosophy for a company, we are an open access logistics company. We are very agnostic to whatever the approaches that our customers want to do. So an open season is for customers to sign up for long-term transportation that may be one outcome, other outcomes that may happen that potential customers come to us and say "hey, we actually don't want to take out the transportation, but DCP, with your marketing arm, why don't you buy all the barrels from us and you deal with all the transportation and everything downstream." And that actually is a preferred approach for us because what it will mean for us is that we basically have control of the barrels, and we can take those barrels and then leverage those into different projects, like what we did with Sweeny 2 and Sweeny 3. So as it pertains to where did the open season come out for the Southern hills and White Cliffs expansion, we've signed up some additional barrels, some additional produces or customers where we can market their barrels. We will take control of the barrels. This was going to be a great project to start with, just with our 40,000 to 50,000 barrels and after the open season and the contracts that we've signed this has become an even better project.

Operator

Our next question is from Jeremy Tonet from JP Morgan.

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

Just want to start with Sand Hills here. And seeing how it's so highly utilized so quickly here, I was just curious, if there's any way to kind of pull forward the expansions here, just given the market demand. And I guess later David (sic) [Wouter], do you see the potential -- what are your thoughts on further expansion beyond what you've announced given how demand trends are shaping up here?

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

Well, Jeremy, I appreciate the vote of confidence. I also -- "Hey, we try to do whatever we can do, but miracles unfortunately are a little bit out of our league." But we have expanded significantly. We've pulled all kind of expansions forward already. If your recall, on like -- we're at 425,000 barrels a day here today, that is 35,000 barrels or 55,000 barrels of where we would expect to be at this time. So not only via some of our DCP 2.0 technology efforts, where the team came up the dynamic set borings and is increasing overall flow in the pipeline by 35,000 barrels a day, we've accelerated some of the extensions that we've done. I tell you, we are working tremendously hard to get to that 485,000 barrels as quickly as we can. Can we moved it forward significantly from where we are, sitting here today, probably not, maybe, a couple of weeks here or there. But the good thing is also is you're not going immediately from the current 425,000 to 485,000 by every pump station that you put in you (inaudible) overall capacity a little bit. So over the next couple of months, every 4, 6 weeks, when we put a pump station in service, our capacity will go up a little bit. So that is a good thing. We are obviously looking at what are we doing next. And like we've spoken with all of you about that. What are the opportunities for us to do another loop or full loop barred extensions. All of that we're spending a lot of time and effort on and looking at that. It's a little bit too early right now to talk about what the answer is going to be.

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

And then just moving to ethane rejection here. Just wondering if you could update us as far as what you're seeing across your assets and how is that comparing to your expectation. Seems like it's helped out your NGL pipes a bit here?

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

Yes, so we've see, I referenced a $6 million uplift, Jeremy, in Q2 from increased ethane recovery. Just with some of those numbers in, I think, we were projecting around $40 million, $45 million. If you think about Q1, the numbers now in the mid-30s, somewhere in that range. So it's about a $10 million change. So that's benefiting the pipeline both Sand Hills a lot it's Southern Hills as well. We were cautiously optimistic, we'll look at that going forward. We had based in that $30 million, mid-$30 million -- or I'm sorry, mid-$40 million range. When we set our guidance, we've seen some improvements. We'll keep an eye on it the rest of the year, obviously, and see if that continues as we go forward. But it's definitely benefited us in both Q1 and Q2.

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

Got you. Just wanted to go to O&M quick here. It seems like that ticked up a bit this quarter. Could you just remind us as far as what type of seasonality you see there? Seems like it stepped up a bunch over 1Q, but then, if you look back to last year kind of trail down over the balance of the year. Should we expect kind of a similar trajectory this year?

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

So you're actually right on the trend. So obviously, we -- and I indicated on the call -- last call that we would see it tick up quite a bit. Q2, Q3 tend to be heavy reliability expense months for us. We do a lot of our turnarounds in both quarters. I think you noted, you look at the trend Q2 of this year really was pretty close to Q2 of last year, although, as we said, up a bunch from Q1. I think the one difference that you're going to see a little bit going on in the remainder of the year, and I was alluding to it on the call, is that I think we expect that trend to continue. You're right, we dipped off a bit last year. This year with the -- we've got a lot of growth coming online. Obviously, Mewbourn 3, you've got all the increases in Sand Hills and other things that we're working. Even in some of the existing assets. So I expect that to trend more similar to Q2 the remainder of the year. We're also -- I think, Wouter mentioned it earlier, we're definitely upping and continuing to expand on our transformation efforts and making sure that we keep those going. So we've done an amazing job over the last 3 to 4 years of more than offsetting inflation, more than offsetting a lot of growth coming in. We're continuing to do that, but we've got a lot of things coming in line. And also, you think about the growth I've shared with you, the increases in areas like the Midcontinent, increases in the Eagle Ford, those will drive some expenses as well. Obviously, they're driving incremental margins.

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

That's helpful. And then one last one, if I could. Just, there's a lot of discussion on the topic of Permian basin differentials both on nat gas and NGLs. And I was just wondering if you could walk us through a bit -- maybe your sensitivities or a kind of the pluses and minuses for your business on the G&P side and on the marketing side, if those -- if that basis widens out more there.

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

So a couple of things. Obviously, as we go into the year and we set our sensitivities. We're predicating some level of basis differential at that time. I think you're alluding to -- they've widened a bunch. And that has obviously, as we settle gas in areas like the Permian, that has hurt us, right? We're getting less for the gas -- at the end of the day for the gas that we're settling there. So that's a negative. You asked for the positive and minuses. On the the plus side, we do see -- we have Guadalupe bay asset that's over 200 a day that goes from 100 [KD] and the value in that basis or the value in that -- the revenue stream we gathered from that asset has gone up quite a bit. So they're actually a really -- a fairly good offset, if you think about what we make when the basis kind of collapses or what we lose in the Permian settling gas and what we make on that the pipeline. They're fairly good offsets. That's actually played out quite well for the company. And that's one of the reasons you need to think about as we think about the rest of the year, we're going to keep an eye on that. That continues to be something that we're concerned about. We want to -- it has tightened in just a little bit increase in recent, not enough to get us really excited, but that's a watch out for us the rest of the year. In terms of our sensitivities, we set those sensitivities when the basis was not as wide. We'll keep an eye on that. If it gets big enough, we'll go ahead and revise our sensitivities towards the back end of the year. Just think about that in 2 ways though, our gas sensitivity will go up, our NGL sensitivity will go down, so net-net, it's not a big driver of our overall sensitivities.

Operator

Our next question is from Jerren Holder from Goldman Sachs.

Jerren Holder - *Goldman Sachs Group Inc., Research Division - Associate*

Maybe just starting off with hedging, just given the higher ethane prices that we're seeing. Are you guys hedging more ethane these days? I know, historically, you guys have hedged more -- the propane and methane. Just want to see how you're thinking about that.

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

So we have -- overall, Jerren, we have layered on some additional hedges. I referenced earlier that we're starting to get 19 hedges on. So the good news is -- and obviously, we're at our 80% target for the remainder of this year, so we're really excited about that. As you think about the remainder of this year and next year, ethane has improved some. I would tell you it's not at a level yet that we're adding a massive amounts of ethane position or hedges onto the position. The hedges we do have and we've been able to do for next year still remain to be crude. We saw some strong crude opportunities in '19 and obviously, the propane and the heavier end of the barrel, the butane. So it's getting closer on the ethane but not quite there yet.

Jerren Holder - *Goldman Sachs Group Inc., Research Division - Associate*

Got it. And then, is there any update on Discovery, the outlook there, potential for that cash payment come in?

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

No, no, no change in the guidance we gave on our previous call. The only thing that tweaked a little bit was the timing and even if you follow the cashflow, we were -- our distributions were a little bit lower in Q2. We expect that to come back in Q3. But that's relatively de minimis in the grand scheme of things. So the full year guidance, we've given you on the impact on Discovery still holds. Obviously, as think about the future, going into next year and beyond, it's still a good basin. I know Williams, our partner is working on getting volumes back into that asset.

Operator

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

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

So just to follow-up on an earlier question. So if cash flow ramps from kind of increased activities in new projects, how do you think about the trade-off between retaining cash flow to internally financed future growth versus returning more cash to unitholders through a distribution increase? Or do you think that an IDR conversion happens first before increasing a distribution?

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

Elvira, it's Wouter here. Let me take that one. I think we're -- I'm like, we're looking at every single piece of this. I think what I said earlier when Shneur asked the question. We believe that building coverage is the right thing to do now. Building coverage is going to provide us with great optionality on a number of different items. It will provide us with optionality to self-fund. It will provide optionality to buy the IDR, and make sure that you protect the current $3.12 and then still have enough coverage if a potential downturn would come. So for us I think the building coverage is the most important thing. So and right now, looking at increasing the distribution, it's probably not what we believe what would get us the greatest (inaudible) apart from our unitholder. So for now it is about building coverage, using excess cash flow to continue to get these great growth projects and a great growth portfolio that we have online as quickly as possible. And obviously, if we don't have to go into the capital markets, but can use internally generated funds, you both got a nominator and a denominator effect in the long term. So it really helps tremendously in the out year. So that's really what we're focusing on right here, right now.

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

That's very helpful. And then, you touched on this a little bit on what you're kind of seeing in the Permian, but maybe if you can dig in a little deeper. If there is this growing concern that once you get to the end of this year, early next year that natural gas takeaway will be constrained, and maybe your see more gas flaring at the wellhead, which could lead to sort of less volume growth on the processing side and the Permian. Just -- what are your thoughts on that and sort of your volume growth outlook both on the processing side in the Permian as well as NGL takeaway?

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

Yes, so on the -- the cup is half full, the cup is half empty today. And on the hand, if you think about there's a little bit -- in the shorter run, it's a little -- it's kind of what I would call a champagne problem. Because everything is getting full, which means that from a overall utilization and from a financial point of view, things are really, really good because you're making a lot of money. At the same time, we got to get to a place as an industry between the midstream sides and the producers where we have enough capacity and adequate capacity, and like nobody likes bottlenecks and it could be gas takeaway but it could be labor or it could be frac sand or it could be water. There's many other different ways that I think bottlenecks can show up.

For us, we spend a lot of time with our major producers there. Our major (inaudible) producers confirm they have adequate gas takeaway. We have some processing capacity that is sitting open, and is not sitting in the most congested areas of the Delaware Basin. I think there's a lot of congestion down south we're sitting in the north. So for us, we believe that our second half volumes in the northern Delaware and southeast New Mexico are going to continue to grow. Our pipelines will be full. We have the balanced portfolio that I mentioned earlier. So yes, when G&P basis starts widening on gas, we'll make that up and then some on the Guadalupe side. The NGL pipelines are going to be full. And then there was a reason why we did Gulf Coast Express and why we were the first ones to gather with Kinder and Targa to develop that pipeline because we needed it. And it's going to be first pipeline online, it's fully subscribed and it's going to provide us with a lot of great returns as well. So in the end, we got altogether work on alleviating the bottlenecks that we're having as an industry. I think everybody is working that, in the meantime, for us what it means is assets are full, we'll continue to fill them up and it provides some pretty good financials and outlook for 2018 and 2019.

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

That's helpful as well. Just a couple of other quick ones for me. I mean, can DCP benefit at all from the -- sort of the widened Conway to Mont Belvieu ethane spreads?

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

Not as much like there's at least one other in our space that can really benefit from that very significantly. Obviously, our marketing teams are, every day, making sure that we look at how do we optimize the portfolio. You've seen us do that during major events when there was congestion in the country, where we're teamed at the right things, but right now, I think a lot of things that are driving some of those issues is around frac constraints, and you're not seeing a massive uplift I think in our financials from Conway to Bellevue arbitrages.

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

Got it. Great. And then the last one for me is just on the guidance, bringing up the low end, is that primarily because you had Sand Hills and Mewbourn come on earlier than expected?

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

Yes, yes, Elvira. I think that's part of it. We brought some growth online quicker than we thought. I also would tell you that the first half of the year performance, we feel really good about that. So we came out of the gates really strong, not just around the growth projects coming online, and obviously, to your point that benefits the second half of the year. But that slide I showed, our base businesses in both G&P and the MNL are performing quite well with volumes ramping up very nicely, and obviously, as we add -- we've added capacity throughout the year on Sand Hills we're filling that up very quickly. So out of the gates really strong, we felt the -- good enough to strengthen our guidance because of that.

Operator

Our next question is from Dennis Coleman from Bank of America.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Couple for me, most have been asked. But if I can just a couple of on the Sweeny frac option. Obviously, clear -- good projects sit with your one sponsor, PSX, but no clear fit to the other. Was there some kind of payment or consideration for the option in any way that -- because it's a sort of a 50% owner?

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

So I'm not sure if I completely understand the question, Dennis, but let me kind of talk through this. The way we do and when DCP has been run and has always been run is what we do is what is right for the DCP unitholder. So it's not about, "Hey, what is right for one party or another party." If it's right for the DCP unitholder, it is right for the owner of the GP. So in this case, we've spoken for a long time around how there is things that we can do between ourselves and Philip 66. If you look at our service offering that we do from the wellhead in 17 different states to the market centers and then you look what Sweeny is doing, also what the Phillips 66 is doing, beyond that with their infrastructure and their export capabilities and their global capabilities, there is no other party that can give a better offering than those 2 together. So we have done that for many times, we have gone to different customers and say here's an offering that we can provide you that other people can't do. And one of the outcomes of that is -- was with Sweeney, we are the largest NGL producer in this country, we control more barrels than anybody else in this country. And so if we have barrels that we can utilize to make other projects happen, then we obviously will use those. So that's what we did here. We are committing barrels to Sweeney 2 and Sweeney 3, we have barrels that are committed to Sweeney 1, and in return for that we get a 30% ownership interest in both of those fracs. And I think those are great, great projects they fit tremendously well with us. They're going to be very good return projects. They've fit -- they've obviously fit very well with Phillips 66 and there are no separate payments or other things that happen. These are arms length transactions that are governed by a special committee. And this is a great transaction for the DCP unitholder.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Okay, I got it. And so just in terms of timing. Obviously, no need to exercise the option until the in-service. But would there be any circumstances where you might go ahead and exercise the option early?

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

No, I think the great thing what we're doing is, and Sean talks a lot about is, how we're very efficient with our capital, and how we make sure that we protect the balance sheet. And part of one thing that we negotiated this part of this transaction and we agreed with Phillips 66, that we would not exercise the option until the in-service date. So there is absolutely no pressure on our balance sheet during construction time period that is the 2-year period, and we will have the option to exercise at in-service on this $400 million option. So tremendously efficient from a balance sheet point of view. And it's no different than you've seen us do with some other projects, like the Cheyenne Connector is structured exactly like that, where we have option to exercise, and therefore, doesn't put any pressure on the balance sheet for us. And I think another great thing for our unitholders.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Okay. So just to be clear. So there's not even the option to exercise early? It's only at in-service?

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

Well, why would I exercise the option early? Just to put my money on the balance sheet? I don't think that makes any sense. Unlike -- Dennis, unless there is something that you say, "Hey, here's a great reason to exercise early." But we have unilateral right to exercise the option, I think it's up to 30 days in prior to the in-service date. And our expectation like with the Cheyenne Connector is that we will exercise those options because both are great projects. Exercising them tomorrow, I'm show that Phillips will love us to do that but at that time we would barely pursue (inaudible) capital into the project, and I don't think that's the right thing for the DCP unitholder.

Dennis Paul Coleman - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Okay, Okay, Now I got it. Okay, so switching obviously, a great job on Mewbourn 3, bringing it on so quickly. The efforts that you did there, anything that sort of changes, sort of, procedures and construction protocols that will translate directly into accelerating, say, O'Connor or the Bighorn plants?

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

Yes. So construction commissioning start-up, all of those were ahead of schedules. So that is a great thing just for people to kind of understand what does it mean. You put 200 million a day online. So do you immediately go when you flip the switch from 0 to 200 million a day of additional processing capacity. It doesn't really happen that way. You've got to think about this as breaking in a car, you're not supposed to redline it immediately, you bring it in for an oil change a little quicker, so you have to do some service on it. A gas processing plant, even though it's a $400 million infrastructure plant, is no different than a car from that point of view. But I think what is really exciting is spot readings in the system are over 1 Bcf a day that we're seeing here. As of today, we saw over 1 Bcf a day going through the system. So things are really, really going well. With that said, and to your question, what does it mean for the future, "Hey, Mewbourn 3 was yesterday, great news, great things happen there but it was yesterday. Everybody is focused on O'Connor 2, and making sure that we get that plant online as quickly as possible." We accelerated O'Connor 2 on our last earnings call by 3 months already. So some of the things that we've learned on how do we build this plant, and I think Mewbourn 3 is probably from large gas plants, probably one of the fastest if not the fastest constructed plant this country. But we're going to try to do exactly the same with O'Connor 2, and we've spoken internally about, "Hey, we want to beat the record that we set with Mewbourn and apply that to O'Connor 2 and get that online as quickly as possible." At the same time, we got to do it safe and our teams and our construction teams and our contractors have done a great job on getting Mewbourn online in a very, very safe manner with over 1 million man hours of injury-free working. We're going to do the same on O'Connor 2, can't wait that to come online. We're going to move 100 miles an hour. And then, yes, we're keeping everything online with Plant 12, the Bighorn plant as well. So we filed the permits, we expect to get those in the next couple of months, we are spending money on low lead-time items. So we can stay on that timeline as well and start constructing that plant.

Operator

Our next question is from Michael Blum from Wells Fargo.

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

Just wanted to ask a question, actually, on the DJ natural gas takeaway. And look -- specifically related to Cheyenne Connector. So the broad question is, do you feel like you have enough ample takeaway for your customers to vacate their gas from the basin? And then is there any reason to think that you won't exercise your option on Cheyenne connector? And then, I guess, related to that, that gets you to the Cheyenne Hub but from there do you still need to contract together all the way out of the basin?

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

Okay, Michael, there are number of questions about the constraints in the Permian and there is constraints. If you have constraints in one area, it really starts clogging up other parts of the country as well. So yes, we're seeing things a little tighter here in the short run from a natural gas takeaway in the DJ Basin as well. We are waiting on some expansions that CIG is doing. So that will give us a little bit of breathing room for everybody in the basin. So that's supposed to come on somewhere over the next month or 2. Those are going to be helpful. Cheyenne Connector, I don't see any reason why we wouldn't exercise our option. We do not have to take additional takeaway capacity on any other pipes to get the gas out. There is ample takeaway capacity past the Cheyenne Hub for us. And I would expect that we exercise the option for that project when we're due. So yes, I think for now the marketing teams are able to kind of manage everything in getting all the product out. It's probably going to be a tiny little bit tight here over the next months or 2. Making show that we -- that CIG comes up with our expansions, but I think we'll be able to manage everything.

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

Great. And then just want to ask a question on coverage and leverage. Leverage is clearly improving here and so is coverage. What's your latest thoughts on, kind of, targets? Where would you like to get to as a company from a coverage perspective? And then from a leverage perspective, if you could talk about those from a credit agreement perspective, and maybe are there already -- and also, a rating agency leverage calc?

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

Yes, Michael. So let's do coverage first. We've been in the 1.1 range because something to think about is, we still have -- and I think someone alluded to it earlier, we still -- most of the growth has not come online, right? We're all -- sum up Mewbourn 3 here and it really didn't generate any cash flow in Q2. Sand Hills at 4.25, all of that's going to happen post Q2, all the way to 4.5. So I think to think our goal was 1.2 or stronger. To be above 1.0 obviously, it's a given, but we're really -- we're targeting 1.2 plus. What we've been delivering solid 1.1, and we've a lot of really strong cash flow coming online. So I see a pretty good line of sight to getting to that goal. Our goal on leverage -- and the 1.2 is important for all the things Wouter mentioned earlier. Dry powder on the IDR, obviously, funding growth or maybe even ultimately at some point raising. If you think about that leverage metrics were in the mid-3s roughly. On what we call the bank metric. Our goal is to be between 3 and 4. We're perceiving obviously heavy -- quicker than I thought and improving quicker than I thought as cash flows have been very strong. On the rating agency side of the equation, it's between 4 and 5, we're hovering in the mid-4s there. So same type -- they correlate fairly well as we improve on one, we improve on the other. So I think we're very close to getting to our targets. And obviously, as coverage grows because of increased cash flow, our leverage metrics improve. The endgame at the end of the day, Michael, is we get to IG. So I think with metrics like those and we're on the cusp, we feel like IG should be attainable by the company. Just got to get the RAs on the same page.

Operator

Our next question's from George Wang from Citigroup.

Dong Wang - *Citigroup Inc, Research Division - Senior Associate*

Yes, just going back to the operating expense, you have mentioned the second half of this year is going to be comparable to second quarter '18. Do you guys have any thoughts on the level of expense next year, just given the higher activities? But, I mean, also did you guys have more levers to pull to reduce operating expense in terms of, sort of, a cutting excess capacity in Eagle Ford in east Texas?

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

Yes, so couple of things -- I think there's a couple in questions in there, George. One, yes, we're spot on, obviously, I made those comments, we will trend more like Q2, and I think that's because we obviously have more capital coming online. And as I mentioned, as -- the high-class problem, volumes are increasing in a lot of our base assets. That does drive some expenses. The economy's doing fairly well. So a lot of our consumables are going up. Again, that's not a horrible thing as long as the margin side is moving and so far that's been the case. I don't give guidance for next year, we don't typically give guidance, but I think as you think about next year, you have more capital coming online, we -- you asked about offsets -- we've -- Wouter and I both referenced multiple times this investment in transformation. There should be a hump there, right? You're investing, your automating, your adding optimization-type capabilities, this is systems, its people, it's those types of things. But those should drive longer-term costs. And we've had a really good track record of adding assets, adding investment and basically, offsetting these increases. So I would look for us to continue to drive that. We've done a lot of that over the last 3 years. Can't give you guidance for next year but a lot of those investments hopefully will pay and start to have some positive impacts on costs. And then I think your mentioned assets. At the end of the day with volumes including -- we definitely have consolidated where we've seen assets declined over the last few years. We'll continue to look at that, but luckily, right now, we're seeing pretty good volume growth across most of our basins.

Dong Wang - *Citigroup Inc, Research Division - Senior Associate*

Right. Also in terms of maintenance CapEx, that the trend hasn't been quite steady over the past few quarters. Did you guys have any more thoughts on the level of maintenance CapEx kind of the trend going forward?

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

I do think -- you a saw kickup in Q2 slightly, and I think you'll see that trend continue. I gave -- the ranges $100 million to $130 million, I think I'm still -- $100 million to $125 million, I'm still in that range. At the end of the day, we are seeing increased volumes that you're going to see increase the product replacement-type stuff. So we'll keep an eye on that, George. But I don't see any massive increases.

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

George, it's Wouter. Just to add quickly to that. Sean showed the slide of how much volume uptick we have all throughout the system, which means assets are running, they're running harder, which in the end means you're probably going to spend a little bit more on maintenance. So it's a very logical thing, and I'm really not worried about some of that cost and that overall cost going up as long as the margin comes with that. And I think you're clearly seeing that from us here today from the first 6 months, how we're looking at the next 6 months, the guidance that we're strengthening, that -- yes, cost may creep up a little bit because we're more assets, we're running them harder, but you know what, you're well offsetting it by getting more margin. So spending $1 to make $3, I'll do that any day of the week.

Dong Wang - *Citigroup Inc, Research Division - Senior Associate*

Yes, that totally made sense. Last question, just going back to ethane uplift. It's nice to see you guys are doing incremental ethane recovery. Just want to know if you guys have any update on the -- [in terms] dollar amount for the ethane benefit. I mean, in the past you guys quoted like $40 million of ethane uplifts with similar level CapEx, maybe additional $100 million uplift if you sort of go -- be able to more -- to accommodate more ethane recovery. Do guys have more sort of color and update on this perspective?

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

Yes, well, George, let me take that quickly. So ethane uplift, we're seeing 6 months here in this quarter. You can annualize that, that's $25 million. I think what is more important, what you're talking about when we spoke about those numbers 2 years ago that was just talking about getting more ethane in the system. We're actually -- gone above and beyond that by just broad much more NGL growth all throughout our system. So you get better netbacks G&P side of the house, we're getting more flows through the pipeline. So a lot of that is -- has already come in and continues to come in. There is more opportunity left, obviously, but it's tough to kind of look at what everything has happened over the last 18 months with significant growth all throughout our system to take that snapshot and say, "Hey, what piece does apply to ethane or what piece applies to the broader NGL barrel." But I think net-net, what you're seeing is massive uplift throughout the entire system by just increased growth, increased volumes coming out of the plants and going on the pipelines.

Operator

Our next question's from Selman Akyol with Stifel.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research*

In your opening comments, I think you talked about 55% Gathering and Processing, 45% Logistics & Marketing. If I just look at over the next couple of years, I guess you've got Gulf Coast Express, Cheyenne Connector, the frac interest coming. So longer term as you look out, how do you see that shifting if at all?

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

I think -- yes, you've really picked up on obviously a lot of growth -- as you mentioned, on the logistics side, but there is also some similar growth if you think about the DJ, Mewbourn 3, O'Connor 2, Bighorn coming online and then, Selman, if you think about the increase in just the base assets that we have, the Eagle Ford being up 30%, obviously, is -- it's a high-class problem, right? Our G&P volumes and our G&P margins are up. So I look -- holding everything constant, looking at where -- as we see what we know about growth, I think it will hold currently where it is or may be grow slightly to the M&L side. Our goal was always to get it pretty close to 50-50. I think it's a win-win when both sides are growing, and that's kind of what we're seeing right now.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research*

Okay. And then -- appreciate that. And then on DCP 2.0, you've talked about how it helps offset inflation. So I guess the first question is where are you seeing cost inflation? And then the second is, can you talk about what DCP added in dollars to this quarter?

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

Well, yes. I am going to -- not going to give you exact details around how much does this add to the quarter. But I can tell you that it's -- I'll give you one very simple thing to do. Take the 35,000 barrels that we got on Sand Hills, multiply that times rate, times 365 days a year and you're going to like the number quite a lot. But this is going to go into every little piece that we're doing, it's going to go into reducing overall -- over time, it's going to reduce the fair (inaudible) efficiencies, in Sean's team. So what we're trying to do is, "Hey, I bet this, in their entire business completely changed the way we do work." And you're seeing, in the end, strong G&P results, strong Marketing & Logistics results. And you know what, we couldn't have done that without what we're doing from a technological point of view, in completely changing the way we run this company. But with that said, there is much, much more to do, and I think there's much more opportunity. We're going to continue to invest money in it aggressively to see that -- to make sure that we completely change the way we run and operate this company. As to your point around inflationary pressures, I think there is -- a lot of our costs are tied to commodity. So if crude oil prices go up, then a lot of consumables and things like that are going up. So everybody in the industry will see that, "Hey, we use a lot of lube oil." Lube oil is directly linked to the price of crude oil. So if crude oil goes up, lube oil prices go up. But I think you're seeing other things as well, you're seeing some tightness in different markets as it pertains to labor. I'm like, we're at a historically low unemployment rate in this country and some of the areas that we do business, like the DJ business here in Colorado. The state Colorado is one of the lowest employment levels in the nation. Places in the Permian where your see tightness in the labor market. So obviously, that means that you have to spend some, and that is some of the inflation that you see creeping into the numbers. But I'm not worried about it. As I said earlier, when George asked the question, if we have to spend $1 to make $3, I'll do that any day of the week.

Operator

At this time, I am showing no further questions. I would like to turn the call back over to Irene Lofland, VP of Investor Relations, for closing remarks.

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

Thanks, Gigi. Thanks, everyone for joining us today. If you have any follow-up questions, please feel free to give me a call and reach out. Have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.