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DPM - Q2 2017 DCP Midstream LP Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to DCP Midstream's Q2 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Irene Lofland, Vice President of Investor Relations. Please go ahead.

Irene Lofland

Thank you, Nova. Good afternoon, and welcome to the DCP Midstream's Second Quarter 2017 Earnings Call. Today's call is being webcast, and the supporting slides can be accessed under the Investors section of our website at dcpmidstream.com.

Before we begin, I'd like to point out that our discussion today includes forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements and for a complete listing of the risk factors, please refer to the Partnership's latest SEC filings.

We will also use various non-GAAP measures, which are reconciled to the nearest GAAP measures and schedule 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.

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

Thank you, Irene, and thanks, everyone for joining us on our call today. I'll start with some highlights and then Sean will review the quarter results and our 2017 outlook. After that, I'll share insights into our volume outlook and spend some time on our strategy and growth projects in 2 of our premier regions, the Permian and the DJ.

As we announced this morning, we are moving forward with significant projects in those 2 areas, allowing us to capture growth in these basins with less capital, lower risk and higher returns. Going back to the quarter, coming into 2017, we knew it would be a transition year for the industry and we were anticipating choppy waters and so far, this year has seen significant volatility in the energy sector. We have a strong track record of managing through this environment and continue to position DCP for long-term sustainability and value creation. We are reaffirming our full-year adjusted EBITDA and DCF guidance and tightening to between the low and middle end to reflect a first half of the year results and the current commodity outlook for the remainder of the year.

In the second quarter, the Partnership generated DCF of $119 million and adjusted EBITDA of $216 million, both lower than the first quarter as we expected, reflecting weaker commodity prices and higher planned maintenance and costs, offset by better performance from our NGL pipelines. Our distribution coverage was 0.89x for the quarter and 1.04x year-to-date, inclusive of IDR giveback. And as a reminder, we added a layer of downside protection as part of our simplification transaction in the form of 3 years of IDR givebacks of up to $100 million annually to protect our $3.12 per unit distribution. This IDR giveback essentially hedges our distribution coverage to approximately 1x annually against a dampened commodity and industry environment. Sean will provide more details on our outlook and we will review the mechanics of the -- and we'll review the mechanics of this IDR giveback.

As we look to the second half of the year, we are seeing multiple positive signposts from producers in our key areas. An early look at July results shows record volumes in the DJ Basin, volume growth in the Eagle Ford and on our NGL pipelines, and continued improvement in the Permian, setting the pace for an improved second half of 2017.

Longer-term, we continue to be well positioned to manage through this environment to achieve our financial strategy. The team has executed well through this downturn and has built a solid foundation. As we pivot to the future, we have a very strong slate of growth projects that will drive higher cash flows. With that said, we will remain disciplined and we'll allocate capital to the best-return projects with strategic partners in our key regions that will further enhance our portfolio. Let me give you some examples of that.

In the Permian, we're executing on our 2017 and 2018 Sand Hills expansions, adding 60-plus percent of NGL capacity to bring Sand Hills up to 450,000 barrels per day. Both of those expansions are supported by existing long-term contracts with plant and acreage dedications going out to 2036, and are backed by growing volume forecasts. So we are very comfortable that Sand Hills will continue to fill up as new capacity is placed in service.

Also in the Permian, progress continues on the Gulf Coast Express Pipeline Project, with bids well in excess of the 1.8 Bcf per day capacity offered during the open season. Together with Kinder Morgan, we continue to work with prospective shippers through definitive agreements and commercial discussions.

Another area that is very strategic for us is the DJ Basin. And I'm excited to share that our Mewbourn 3 plant is under construction and we have approved our 11th plant, O'Connor 2. Together, these 2 plants will add 400 million a day, up 45-plus percent from our current capacity to about 1.2 Bcf a day. The DJ Basin continues to be a phenomenal story and I'll add more color later in the call.

And lastly, with our focus on optimizing our asset portfolio, we significantly reduced our capital market's needs by redeploying the proceeds from high multiple, noncore asset divestitures to lower risk, high-return projects in places like the Permian and the DJ, strengthening our integrated asset portfolio in these strategic areas.

Now I'll hand it over to Sean to review the quarter results.

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

Thanks, Wouter, and good afternoon. Today, I'll cover our results and then give details around our distribution coverage, second half outlook and tightened guidance and finally, I'll give an update on our hedging, financing and liquidity.

To begin, I'll take you through our second quarter versus first quarter DCF. The second quarter 2017 DCF was $119 million compared to $161 million in the first quarter. As I mentioned on our last earnings call, we expected Q2 to be lower than Q1 primarily due to dampened commodity environment and higher costs and maintenance capital, associated with planned maintenance and reliability spend, which tends to be higher in Q2 and Q3. These decreases were partially offset by higher distributions from our NGL pipelines driven by growth from Sand Hills as well as higher G&P margins from our DJ Basin system.

Prices dampened throughout the second quarter, accounting for a $20 million reduction from the first quarter results. Both costs and maintenance capital were higher in the second quarter from our first quarter run rate. I'll start with some of the cost drivers.

Approximately $10 million of this increase was driven by planned maintenance and reliability activity in the quarter. An additional $5 million of the increase is tied to targeted investments in technology and automation efforts as part of our DCP 2020 strategy to drive increased reliability, productivity and efficiencies. And the remainder is primarily timing between quarters.

Looking at the rest of the year, we expect second half cost to trend lower than our Q2 run rate.

Now moving to maintenance capital. We saw a $14 million increase over Q1 tied to planned maintenance and higher rig activity, driving expected volume growth over the remainder of the year in the Eagle Ford, DJ, Permian and SCOOP. More details from Wouter around these positive trends in a moment. To continue to provide you context, I want to highlight that the company has had very strong execution around our cost efficiencies throughout the downturn that drove approximately $200 million of base cost reductions over the past 2 years. That equates to about a 20% improvement in our base cost.

So bottom line, Q2 was in line with our expectations and we're confident that 2017 will be within our guidance range.

Moving on to Slide 5. As Wouter touched on in his opening remarks, we new that '17 was going to be a transitional year. We expected a volatile commodity environment. So when we simplified our structure with our owners, we had the foresight to layer in downside protection in the form of an IDR giveback, essentially adding a hedge against lower commodity prices and volume pressures until the industry materially recovers. This is unique to DCP and demonstrates the strong support we have from Enbridge and Phillips 66. The IDR giveback provides up to $100 million annually from 2017 to 2019, effectively acting as a 3-year hedge against lower commodity prices.

This slide shows how we calculate the IDR giveback and distribution coverage ratio. If needed, the distribution defaults to a $20 million reduction each quarter to be trued up annually to target a distribution coverage of approximately 1x. During the first and second quarters, the incentive distribution paid to our general partner was reduced by $20 million each quarter, resulting in a second quarter distribution coverage ratio of 0.89x and 1.04x year-to-date.

Looking forward, our goal is to grow our DCF to achieve our target of 1.2x or better distribution coverage. To achieve this goal, we're executing on predominantly fee based, lower risk, higher return growth projects under way in the DJ and Permian Basin. We're also investing in automation and technology to drive greater efficiencies and productivity and long-term sustainability, building on our already $200 million base cost reduction and driving stronger margins from our assets just like we did through our contract realignment efforts. And we will continue to redeploy proceeds from high multiple, non-core asset divestitures into lower multiple growth projects in our core regions.

Turning to Slide 6, we are reaffirming our 2017 DCF and adjusted EBITDA guidance and we're tightening the ranges to reflect the commodity outlook. We still expect our distribution coverage ratio for the year to be approximately 1.0x with the IDR giveback. In the second half of the year, we anticipate our DCF and adjusted EBITDA to be higher than the first half of the year despite a lower commodity outlook, reflecting a stronger volume outlook and unit margins in our G&P business, continued growth from Sand Hills and lower costs. We also expect the negative impact of

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approximately $10 million to earnings and distributions from our Discovery equity investment due to a lower producer production forecast associated with wells tied into the Keathley Canyon gathering system. We've included the August forward strip price for the second half of the year on Slide 6. And using the commodity sensitivities we've provided, that puts our DCF and adjusted EBITDA in between the low and midpoint of the range.

Looking at our capital outlook. We are forecasting maintenance capital to be at the low end and growth capital to be at the high end of our guidance ranges, driven by current year execution of our Sand Hills and DJ Basin expansion projects.

Moving to Slide 7, I'll provide an update on our hedging, financing and liquidity. Despite the dampened commodity environment, natural gas liquids prices have strengthened and are now at 50% accrued. As one of the largest NGL producers in the U.S., we are sensitive to changes in NGL prices. So we are encouraged that NGL have strengthened and we took this opportunity to layer on additional hedges, specifically propane and butane during the quarter and July. Now taking our fee-based and hedge margin up to 78% for the remainder of the year, up 5% from Q1. We have ample liquidity and financing flexibility, and our bank leverage ratio improved to 4.5x as of June 30. At the end of the second quarter, we had approximately $1.4 billion available under credit facility and with the proceeds received from our recent Douglas divestiture, we had $251 million of cash on hand. So we have options available to manage and fund our disciplined and expanding growth program.

Through our disciplined capital approach and strategic noncore divestitures, we haven't had to issue any equity since early 2015 and I'm very confident in our ability to fund our 2017 growth capital without any equity needs. We will remain disciplined on our financial priorities, focused first on strengthening our balance sheet and reducing leverage to a target range of 3x to 4x, building distribution coverage of 1.2x or better, and then once we reach these goals, we will turn our focus to raising our distribution.

With that, I'll hand it back over to Wouter.

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

Thank you, Sean. On Slide 8, we show our volume outlook. First, in our G&P segment rig counts are up 111% year-over-year and our second half outlook anticipates growth in multiple areas. In the Northern Delaware, increased drilling is translating to volume growth around the footprint. In the Eagle Ford, I'm optimistic that we reached the bottom in March. Volumes have increased significantly. To put that in perspective, in July, volumes were over 600 million cubic feet per day, up more than 15% from March levels.

In the DJ Basin, we put the 40 million a day of quarter bypass in service in June and in July, the DJs have multiple daily volume records and we averaged 845 million a day for the month of July of total processed and bypassed gas. And lastly, in the SCOOP, our key producers have provided a strong growth outlook for the rest of the year and we expect additional volumes to start coming in during the third quarter.

Now moving to our logistics and marketing segment. The big story here is Sand Hills with capacity and volumes steadily ramping up since inception. Sand Hills was placed in service in late 2012 and since that time, we've increased its initial 200,000 barrel per day capacity by 40% to 280,000 barrels per day, primarily by adding pump stations with very little capital outlay and at very low multiples. We've always matched the pace of supply growth with capacity expansions and we're currently in the process of expanding Sand Hills capacity again, now from 280,000 to 450,000 barrels per day.

We know there are many Permian NGL takeaway projects announced or on the drawing board. What differentiates Sand Hills from those announcement is that we have existing pipe in the ground, with long contract -- long-term contracts in place and our expansions are being executed as we speak.

Now moving to the next couple of slides, I want to spend some time grounding you on our Permian and DJ Basin strategies, 2 areas where we have a tremendous opportunity to continue to grow around our expensive footprint while we are providing offerings across the energy value chain.

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On Slide 9, I want to share a strategy on capturing Permian Basin growth. The industry outlook for the Permian and Delaware Basins is very strong and we have seen producers, midstream companies and private equity firms focusing their resources on continued development of these areas. With the significant growth projections in the Permian and Delaware Basins, market growth from pipeline exports to Mexico as well as LNG exports, we believe there will be considerable capacity demand for both natural gas and NGL takeaway. DCP's leading G&P footprint and the existing Sand Hills NGL pipeline in the Permian puts us in an excellent position to capture that growth.

We've been asked why DCP isn't participating as actively as some others in building new processing plants as part of the recent Permian G&P buildup, so let me address that strategy. You haven't seen us chase G&P growth in the Permian and Delaware because we believe that we should not build for the peak but instead, balance the right amount of capacity at the right profitability. We love the Permian but we've seen a similar playbook in the past in many, many areas around the country including, not too long ago, the Eagle Ford where the industry is now sitting on a lot of excess processing capacity. With that said, our G&P position in the Permian is very strong and it's very important to us. It is foundational to providing connectivity to our downstream logistics business. We have millions of dedicated acres and strong drilling by producers and we will continue to partner with our producer customers and evaluate processing capacity needs around the footprint but we will remain disciplined and not build on spec before it peak. We will look at the right opportunities and are in very active discussions with multiple large and established players where we can provide a fully integrated midstream solution.

Where we are very aggressively investing capital in the Permian is the Sand Hills NGL pipeline, which has consistently delivered strong fee-based returns while ramping to keep pace with producer demands. Sand Hills is backed by volume commitments, plant and acreage dedications from our G&P business as well as from existing third-party facilities, which currently account for approximately 70% of volumes. These contracts are very long term in nature, extending out to 2036 with no significant renewals until 2023, and I'll talk more about our Sand Hills expansions on my next slide.

Another project that I'm excited about is our participation in the Gulf Coast Express natural gas pipeline. DCP's leading G&P footprint in the Permian provided us with a natural opportunity to partner with Kinder Morgan to develop needed residue gas takeaway infrastructure for existing and prospective producers. The nonbinding open season closed in April, with bids exceeding the capacity offered, so we're now working with shippers to obtain firm commitments. Gulf Coast Express is expected to be in service in the second half of 2019, and we look forward to sharing more in the coming months.

To sum it all up, our strategy in the Permian builds on our solid G&P footprint and full value chain solutions. And let me his this point home: we believe there is a risk of G&P overbuild in the Permian. So at this time, we have deliberately chosen to allocate our capital in this area to our integrated logistics business, which allows us to capture growth across the whole basin with less capital, with lower risks and higher return.

On my next slide, I'll spend a moment discussing our Sand Hills expansions. Our 2017 Sand Hills expansion is nearing its expected fourth quarter in-service date, and will bring capacity to 365,000 barrels per day. This was a $70 million investment at approximately 2x multiple, adding 85,000 barrels per day through incremental pump stations.

In May, we announced a larger-scale 2018 expansion of Sand Hills, which will bring capacity up to 450,000 barrels per day for an estimated $300 million net to DCP's interest at a lower cost than we initially shared with you. We've secured the pipe and pump stations. We're working on them right away. And we will break ground in September with an expected in-service date in the third quarter of 2018. So on the next couple of months, we will have increased Sand Hills capacity by 30% to 365,000 barrels per day. And by the third quarter of 2018, we will be up another 20-plus percent to 450,000 barrels per day. And I would like to emphasize, we are not expanding Sand Hills on speculation. We have ironclad contracts in place, securing dedicated volumes from plants that are built or under construction, which will bring NGL volumes well into the next decade. And this doesn't take into account any growth from ethane recovery, which would be significant upside over and above what we already have.

Now let's turn to Slide 11, where I'll focus on our strategy in the DJ Basin. The DJ Basin is just as exciting as the Permian and SCOOP/STACK areas but very few people talk about it because we're only 1 of 2 midstream providers and the acreage is dedicated to us under life-of-lease agreements. This region provides some of the strongest returns and lowest breakevens in the country. We have an integrated system in the DJ with approximately 850 million a day of processing and bypass capacity, which includes up to 40 million a day of incremental capacity from our O'Connor bypass that was placed in service in June. And already in July, the DJ set multiple daily volume records, averaging 845 million a day of total process and bypass

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gas. With continued growing demand in the DJ Basin, we are on track to increase our total capacity by over 45% to about 1.2 Bcf a day over the next 2 years. This is driven by our 200 million a day Mewbourn 3 plant and associated gathering, which is under construction and will be in service in the fourth quarter of 2018. And I'm really excited to announce that we've also approved an 11th plant, the 200 million a day of O'Connor 2 plant and associated gathering, which is expected to be placed into service in the middle of 2019. These new plants are supported by very strong producer partnership and commitments and underscore the strength of our footprint and our focus on capital discipline. They provide strong returns with 5x to 7x multiples, we have life-of-lease acreage, we have full value chain economics and we have minimum volume commitments and minimum margins.

So with that, let me summarize what makes me excited about the opportunities ahead of us. We feel good regarding the second half of the year. During the month of July, we have already seen record volumes in the DJ, volume growth in the Eagle Ford, and on our NGL pipelines, continued improvement in the Permian, lower costs associated with operational efficiency improvements and NGLs strengthening to 50% of crude, all setting the pace for an improved second half of the year.

We are reaffirming our 2017 DCF and adjusted EBITDA guidance ranges, tightening to between the low and middle end to reflect the current commodity outlook. We delivered 1.04x coverage year-to-date and we expect distribution coverage of 1x in 2017, which is protected by IDR givebacks. We have ample liquidity and financial flexibility to fund our growth, reducing our needs to excess capital markets. And we do not anticipate any equity needs in 2017. Our Permian and DJ Basin strategies are focused on tremendous, lower risk, high return, predominantly fee-based growth opportunities, which extend our value chain and further integrate our G&P and logistics businesses.

With that, I'd like to thank you for your interest in DCP, and now, Nova, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

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

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

Just wanted to start off in the DJ, it seems like there is a lot of discussion there as far as growth is concerned and we're wondering if there's any opportunity for you guys to kind of bring forward any of your projects to kind of service this growing need there?

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

Yes, Jeremy, let me take that one. Yes, there is definitely some very significant growth opportunities. Obviously, that's underscored by our announcements of now putting the O'Connor 2 plant online as well and we have approved that plant together with Mewbourn 3, 45% increase in our total processing capacity that we're going to expect over there. So for us, it's about what can we do quicker, how can we make sure that we let our producers run as much as possible through our system? We brought the O'Connor bypass online. It's an additional 40 million a day that came online in June and then we are doing anything and everything in our power, combined with the company that is building the Mewbourn 3 plant, ourselves, our producers, to see is there a way that we can potentially go a little bit faster and bring that Mewbourn plant up from the fourth quarter of 2018, couple of weeks early, couple of months early. So we're trying whatever we can do there. Hopefully, we're going to be successful but it's a little bit too early to tell. But I think you're absolutely right, if you look at the DJ Basin, it's an unbelievable area. The good thing for us, we do have life-of-lease agreements with our producers so we have very close line of sight. We work very closely with our producers to make sure that we always match our capacity and their volumes that have come online. And we have a history of filling up our volumes tremendously fast and quickly there. So once Mewbourn 3 comes online, and I can't wait for that to come online as quickly as possible, I'm very confident we'll fill it up quickly and we'll do the same on the O'Connor 2 plant.

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

Great. And just taking the DJ here, there was a few producers who talked about there were some issues with line pressure they had during the quarter. Didn't know if you guys have any pressure with line issues and if so, if that was resolved?

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

No, and then here's the case, Jeremy. And like, so -- and the producers know this. Like, we had lengthy, lengthy discussions with our producers during 2015 and say, our time line and the time line for the producers, they're not in sync. Obviously, it takes more time for us to build a new plant versus the producers to bring rigs online. And we had discussions with them in 2015, and say, if we continue to believe that after this downside, the DJ keeps growing the way it's growing, we really need to kind of start working to put a new plant online. At that time, the producers, given the environment and that was obviously a very difficult environment, were uncomfortable committing to it. What that means now is that the producers are coming online, the systems are full and then line pressures start building a little bit. We're working together with the producers to make sure that the pressures aren't going to be too high. At the same time, the system is pretty full, producers know that, and that's why we're all working on trying to get new capacity online as quickly as possible.

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

Great, and then just on the Permian, quick here 1 to 2 with Gulf Coast Express. It seems like you guys have a lot of volumes that you could direct towards that system and I'm just wondering if you kind of are looking to align your ownership in the project with the amount of volumes that you can point there? Is there any guidance you can give us, like should it be a 1/4 or 1/2 or any thoughts on what's the right amount of ownership for this pipe for DCP?

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

What we've always said, Jeremy, is that we would be a meaningful owner in Gulf Coast Express, and obviously, we will commit volumes to the project and that will translate into a meaningful equity position for us. At the same time, if there's -- we're working with Kinder Morgan on trying to see who are the right people to come into the pipe, what are the various commitments that people are bringing to that pipe. If that means there are other companies and other players that would like to bring significant volumes, if that has to come with some type of an equity position, we are all open to that. But for us, it's going to be a meaningful ownership interest.

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

That makes sense. And you are -- recoveries have been a big topic this earnings season in the Permian. I'm just wondering given some of the plants are a bit older that you guys have on the Permian, is there an opportunity to kind of upgrade some of those plants to capture some of the richer gas that seems like it's going to be growing there? Or how do you think about that within your Permian strategy as far as potential to upgrade a plant to capture more of this volume?

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

We always look at what can we do to upgrade our fleet and like, I think historically, we, as a company have always been a very much liquid-rich focused company. So from that point of view, I think we are well positioned. We'll try to capture as much as we can from a growth point of view and from a processing point of view with the fleet that we have, modernizing it where needed, building new plants where needed, where it makes

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sense. But also kind of it obviously kind of bodes well I think for us what is happening there from the integrated footprint that we have, not only the gathering and the processing piece but also from our NGL business and from our future business with the Gulf Coast Express.

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

And then just the last one, real quick. G&A, is this a good run rate this quarter?

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

The G&A was a little bit high. I gave some details around some of the cost drivers, Jeremy. One of the drivers was this investment in technology that we talked about. That usually -- that all hits in the G&A section and it was accelerated in Q2. I do anticipate that to continue through the year, maybe not at the exact levels. But that was -- I think G&A, similar to the cost trend for the whole company, we expect it to trend down in the second half of the year. That would also include the G&A side.

Operator

Our next question comes from the line of Shneur Gershuni of UBS.

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

Just wanted to actually follow up on a couple of Jeremy's questions. First, in the DJ, with Mewbourn 3 coming online, that would solve all the line pressure issues that the producers have been talking about. Is that a hope or is that pretty much in the bag once it comes online?

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

No, I think that's very much in the bag from that point of view, and I just want to talk about what we're already been doing. Like, there's been a tremendous amount of work. Prior to our producers being willing to commit to us bringing additional capacity online, like, we did a lot of other things: like the O'Connor bypass, like Grand Parkway. So there's numerous things that are going on in the field to make sure that we can handle the volumes that the producers are bringing us. But yes, once Mewbourn 3 comes online, obviously, that gives you an extra 200 million a day, that will kind of suck the system to much better pressures. We expect to fill it up really, really quickly and that's why we today announced that we are moving forward with plant 11 and put another 200 million on top of that in the middle of 2019. So these 2 plants are going to follow each other very quickly here. Obviously, it talks about how great of a resource it is, how willing the producers are to commit themselves to these projects and how we look at the DJ Basin.

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

Okay. And a second follow-up was, Sean, I think you've mentioned G&A is up this quarter because of some -- an accelerated technology investment. But the way you answered the question before, I was kind of confused. First, you said it's going to be elevated throughout the end of the year but then you said that it's -- the whole direction is pointed downwards. Are you seeing that it's going to be elevated relative to 1Q but lower than 2Q? I'm just trying to understand...

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

Yes, so first off, the cost as a whole will be lower in the second half of the year than the first half of the year. Q2 being the peak and then that goes across most of our categories, Shneur, and inclusive of G&A. So I think you are right, it'll be lower than the levels we saw in Q2. The whole second

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half of the year, we expect costs to come down. What I mentioned around technology in particular was we have accelerated our spend on that, I do expect that to continue on as we've made commitments to that program for quite a while.

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

Okay, cool. And just a couple other questions. Realizations on the NGL side seems a bit low, and I do understand pricing was low during the quarter. But as I sort of decompose it, I kind of wonder if there was a bit of a mix shift. Was the lighter end of the barrel more representative this quarter than it was typically with some more ethane recovery? Just trying to understand kind of the weakness there and trying to understand if it's something about the individual purity products?

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

I don't think the product shifted significantly. We did move a little bit more. I think we've given indications in the past we were running around 60,000 a day of rejection. We saw that improve a little bit in Q2, closer to the 50,000 range. So that's the biggest move we've seen in a while, but I don't think we saw a significant shift in the composite of our barrel at the end of the day.

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

But it's probably not unrealistic to assume that some of that -- those ethane recoveries that we did that's kind of reflective of the broader portfolio.

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

Okay. And then you mentioned how you've been stepping up hedging activities. Was a lot of it done in the second quarter? Was a lot of it done in the last peak when prices were really up? I was wondering if you can sort of kind of direct us as to when you were sort of active in the market, just given the prices have moved a lot in the last [3 or 6] weeks.

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

Yes, I think most of it was done I'd say in the last couple of weeks, the last 3 weeks or so, which would include the second quarter. I did indicate that carried over, Shneur, into July. As well, it's really tied to strengthening in propane and the butane side of the equation. And I will point out, we were able to -- because of that strengthening, Q1 of 2018, not huge numbers, but we were able to get out there and start to add on to our '18 position as well. Same 2 commodities out there in Q1 of 2018. So very recent development. I hope it stays with us. I hope it continues and we can continue to layer on '18 and we still have the ability to layer on a little more '17 as well.

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

Is there an interest in holding back a little bit just given how low propane inventories are? I mean, we haven't had normal winters, and inventories are as low as they are. Does that sort of guide you at all or do you -- it sort of depends -- I want to put this to bed as long as it's in my zip code?

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

The bottom line is we never hedge 100% of our position. I think we've been clear on that in the past. As you think about our equity length, we have targets that hedge anywhere from 50% to 70%. Really what we're trying to do, Shneur, is target that 80%. You saw we got a little closer for the second half of the year. When I say 80%, that would be the mix of fee and hedges. We used hedges to get us there. So we still have upside. I think what you're alluding to is do you have upside if propane runs? Absolutely, we still have some upside. But -- and I will point out, we're always hedging

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at levels that are above a 1.0 coverage ratio, so we feel good about that. So is there a point where we would stop? Maybe. But we're still a couple percent light of that 80% and we hedge the commodities that give us the opportunity to go out and do it at the right price.

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

Okay. And final question, any color from your sponsors given the recent change in ownership? Are you getting a look at some assets that might be in a different portfolio now? Just wondering if you can sort of talk about that relationship right now?

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

I would say that the relationship with Enbridge has been really good so far. Obviously, they have some significant things they are working on with their large transaction, and that is front and center for them more than I think what we're doing with DCP and what the opportunities are there. I can't comment on any specifics or any details but if there are things that make a lot of sense, where we can create a win-win between Enbridge, between DCP, between all the unitholders and all the owners, we obviously will take a look at it.

Operator

Our next question comes from the line of Gabriel Moreen from Bank of America Merrill Lynch.

Gabriel Philip Moreen - *BofA Merrill Lynch, Research Division - MD*

Just wanted to ask, the maintenance CapEx range in guidance was towards the lower end. Can you just talk about a little bit more the drivers there? I know in the past you had mentioned producers connecting wells. But is this there are wells that are not as good as this, something obviously with lower activity or something else going on? I'm just wondering how much lower this can go in terms of the maintenance capital number.

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

Gabe, this is Sean. I mean, Q1 was really light, as you know, as we came in. And part of the maintenance uptick in Q2 -- we saw Q2 getting back to probably more closer to run rates levels, part of that also was we had a lot of our reliability work, which also drove the cost that I talked about scheduled for Q2 and Q3 of this year. So we were at pretty low levels early in the year, around things like well connects; volumes, we're still actually coming off in some of the key areas. Obviously, Wouter give you a lot of color as to how that has shifted and the outlook's definitely gotten better. So I think guiding to the lower end of the range, with a lot of the activity that happened already through the year, we're almost through most of our maintenance and reliability work. Still more work to happen in Q3. As you're modeling Q3, there's still a little bit higher levels there that we would expect. And then we'll keep an eye on the well connects. As I mentioned, in Q2, we saw some really good signs tied to rig counts, tied to increased volumes that are happening as we move to Q3. But we still are well (inaudible) the range as you project out the remainder of the year. I think we spent about

$45 million in the first half of the year. So I'm guiding you to around $100 million, which would tell you you're more at a run rate that we saw in Q2.

Gabriel Philip Moreen - *BofA Merrill Lynch, Research Division - MD*

And then turning to asset sales as potential sources for, I guess, just recycling capital. The Douglas sale, obviously, was beneficial to you guys. Anything else out there -- and you've done other asset sales, anything else out there in the portfolio that you could look to clean up as a source of capital recycling?

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

Gabe, it's Wouter. There's not a massive list that we're having. There's no processes that are currently ongoing, but there's always opportunities to do something if it makes sense, if there's a willing buyer and a willing seller and we can get to the right place. But I would not take in consideration anything that is significant at this stage of the game. So right now, nothing in process but you can always decide in a year from now or so, that there may be some things that are better with someone else.

Gabriel Philip Moreen - *BofA Merrill Lynch, Research Division - MD*

And then the last question, I guess, is a little bit bigger picture for me in terms of not necessarily competing further upstream in the gathering and processing side of things in the Permian. Is there any concern that when some of the newbuild NGL pipelines come online, or some of those participants building those pipelines are involved further upstream that you could see some volumes shift away from Sand Hills over the long term? Can you just maybe address how you might be protecting yourself from that?

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

Yes, Gabe, and let me react and give some thoughts about 2 things that you're saying. First of all, you mentioned, hey, you said you're not competing or decided not to compete on the G&P side, that's not the case. Like, we are in very active discussions, looking at a number of opportunities around where can we build additional G&P, do that in combination with all the downstream offerings that we have. What I said is that there -- we believe there is a risk for an overbuild, and we've seen it in many, many different places where a lot of people are kind of skating to the puck and throwing a lot of capacity down. And we can get to a place where, for instance, in the Eagle Ford, we're sitting still, as an industry, sitting on a couple of Bcf of open capacity. For us, it's about where do we align ourselves? Do we align ourselves with fly-by-night, quick in-and-out type of companies? Or do you align yourself with the large integrated companies that are also looking for an integrated solution from us? That's where we're spending our time and that's where we'll built new processing plants if we have the opportunities. What that also means is that those people are looking for NGL pipeline solutions. So if we build new processing capacity, most likely, you will see it come together with people looking for demand on our Sand Hills system. As it pertains to other people that may be more aggressively building, again, I've mentioned our contract portfolio. Our contract portfolio is going until 2036. Like, that is, under any stretch of the imagination, a tremendously long time period. We do not have any volumes coming up for renewal until 2023. All the contracts that we have are ironclad contracts that give us volumes deep into the next decade and then stretching to 2036, so we are very comfortable with where we're sitting here today, how we're doing the first expansion here in 2017, the second expansion in 2018. And then I haven't spoken about this today but I've spoken about it before, we have another expansion that we could do maybe in 2019 or beyond. What we're doing is we're doing these phased expansions. What it does is, just in time, it makes sure that we're not building, that we get the right returns. And if in some way, shape or form, the Permian doesn't exactly pan out the way we had expected it, we're not sitting with a lot of empty capacity.

Operator

Our next question comes from the line of Jerren Holder of Goldman Sachs.

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

Just going back maybe to equity earnings in general. As we look at the first quarter of '17 and compare it to the second quarter of '17, there's a $25 million increase in EBITDA related to distributions from unconsolidated affiliates. Can you just remind us what drove that big increase? I know there's some growth from Sand Hills but it's still a pretty big number.

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

Yes, Jerren. And we did give some indications early on even last quarter that we'd see improvements. As you may recall, those distributions were dampened in Q1 related to Sand Hills activity in Q4. So you're right on spot. Sand Hills was probably the largest driver that we saw there, big driver in the increase, and we'd expect that to continue as we see growth that Wouter talked about this year and into next year. Front Range was also up. You may recall in the first quarter, we mentioned some timing around Front Range and some tax payments they made. So Front Range was definitely higher, so that's a good trend as well. And I did mention some issues around Discovery and so forth, but not a lot of that hit in Q1. That's more of a forward-looking -- or I'm sorry, in Q2, that's a forward-looking component. So that business -- those businesses, pipeline businesses performing well. Sand Hills is the biggest driver, Front Range helping out quite a bit as well.

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

And so going forward as you sort of look at the NGL sort of equity earnings assets, so excluding Discovery, the second quarter number should be a good number to sort of base case, as we sort of grow volumes in Sand Hills and some of the other assets, that's a good sort of normalized number to work off of?

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

Absolutely. And again, if Q1, if we didn't have those downtime on Sand Hills in Q4 and then there was that little blip with Front Range, those are the key drivers between Q1 and Q2. So very good run rate to kind of model going forward.

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

Okay. And then going back to gather and processing volumes. And so if we think about the third quarter and compare it to the second quarter, based on what you saw in July, should we expect the aggregate sort of average to be higher than the second quarter levels?

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

Yes. Yes, I think some of the numbers that Wouter covered are not insignificant and we're happy to see it. The Eagle Ford increase that we're seeing in July, and it's kind of -- it's along the lines of what we were hoping for. We hoped to see Eagle Ford by the time that we got to the end of this year trending up. We saw that movement actually start to occur very strongly in July and we expect that to continue. You also referenced records in the DJ, right? We referenced that O'Connor bypass project that we brought online that is just pushing the DJ well beyond where we would have seen in Q2 as well. So those 2 things are clearly showing up as we get some near -- results around July. And then as you think about the rest of the year, although not seeing it yet, the SCOOP/STACK, that area, we are anticipating. I think we have a slide that would indicate that we would expect to see that maybe later in Q3, early Q4, some really good sign posts on that area as well volumetrically. So the G&P business on the volume front as you think about first half of the year versus second half of the year, the outlook overall is much improved.

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

And just the last one. Was there any producer settlements included in the second quarter EBITDA?

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

No. No, we called out the one that was in Q1. There was nothing in Q2.

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

And in general going forward, should we expect any more of that as far as this year is concerned based on what you see?

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

No, I would not expect them. I mean, they pop up. It's the nature of the business, Jerren, but we don't need anything in our forecast.

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

Yes, Jerren, I don't expect anything material.

Operator

Our next question comes from the line of Faisel Khan of Citigroup.

Faisel Hussain Khan - *Citigroup Inc, Research Division - MD*

Can you comment a little bit on the cost of some of the plants here? So you've got the O'Connor plant I think what you're talking about is bringing it in at an estimated cost of $350 million to $400 million. And then you were talking about another plant, I think you warned it'll be about $395 million. Can you just give me an idea of what is the plant and what is the infrastructure because of the costs that we're seeing for other plants that -- and other G&P guys are building are closer to $150 million to $200 million for the similar sized plant?

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

Yes, and those numbers that you mentioned there, Faisel, are probably numbers that our guidance are in sync as it pertains to just the plant costs. So when we talk about plant costs, we always say it is both the processing side of the house and the gathering side of the house where we have fairly significant infield gathering that we're building, which obviously is reflected in the margins that we make in the DJ Basin. So it is a little bit of an apples and oranges to pure a, hey, this is high-pressure, central delivery point that would obviously be significantly lower costs because that tends to be plant only.

Faisel Hussain Khan - *Citigroup Inc, Research Division - MD*

Okay. And then but some of these plants are basically -- their additions, they're additional trains. So I would've thought that you already have a lot of central gathering facilities in place, the pipe in the ground. So what would I be missing here? Because I mean, the numbers are -- they would basically be implying that the cost of plant is $150 million to $200 million and the rest of the cost is $200 million for some of these plants, which is for the gathering systems, such as more than what I would think. So just making sure I understand what's going on here.

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

Yes, so one of the things you should think through there is, for instance, we have to built big turbine stations, compressor stations out in the field to make sure that we can get the gas from the wellhead to the plant, so those are kind of examples of things that we continue to build.

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Faisel Hussain Khan - *Citigroup Inc, Research Division - MD*

Okay, got it. And then just on the sequential movement and I guess the logistics -- marketing and logistics business that quarter, the sort of improvement there, was that related to something seasonal or was there something else going on in the business that caused that improvement sort of sequentially quarter-over-quarter?

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

No, I know that the improvement predominantly is going to be driven by the things I mentioned, Sand Hills, Front Range. As I mentioned, Discovery wasn't impacted by -- or Keathley Canyon, by some of the negative impacts that we did give you an outlook for the rest of the year. So definitely, those things are driving it. Q1 was a little bit weaker. As you think about it, our gas storage business, I think we talked about that on our Q1 call. That got a little stronger in Q2. And then you've got propane, because of the mild winter, we didn't have a phenomenal -- typically, propane would be stronger in Q1 but it just wasn't as strong as historically because of the mild weather. So sequentially, big improvement in that business. A lot of it driven by things that will continue and a little bit of strengthening in the gas storage business.

Faisel Hussain Khan - *Citigroup Inc, Research Division - MD*

Okay, got you. And then just on distribution growth, I know you guys have talked about this in the past, and maybe you guys could be setting up the business to maybe talk about distribution growth next year. I mean, how are you feeling about that right now, with some of the quarters coming in the way it did?

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

It's -- you can't look at this as a quarter-over-quarter item, Faisal. Like, I think what you got to look at in the longer term is how do we kind of guide towards what does this company need to look like. And what we've spoken about is we want to get leverage between 3x to 4x. We're sitting at 4.5x, steadily taking our leverage down. Our goal first and foremost is get leverage to 3x to 4x. Secondly, then we've got to get from a coverage point of view, we want to get to call it 1.2x. After we have those 2 accomplished, then we will start thinking about, hey, what can we do from a distribution point of view, can we start increasing the distributions? And part of this has to do with a lot of different things. Obviously, hey, getting the right cost structure in the company, and I think we're doing a good job on that. We're going to continue to deliver significantly over and above on the $200 million that we've taken out already. So what you've seen in Q2 as a run rate is probably the highest quarter in this year. As Sean mentioned, you will see a better run rate in Q3 and Q4. We'll continue to invest in things like technology, get better efficiencies, get better reliability as a company. We're putting some fairly significant growth in place that we feel very good about. It's significantly derisked a lot of fee-based in places that we like. All of those need to happen. Then in combination with where is the commodity going to sit and what does that look like? And on Slide 6 of -- that we gave you, our second half 2017 outlook, you clearly see, hey, where is the commodity sitting in the first half of the year? Where is it sitting today as it pertains to the strip and then our guidance ranges. And you know what, NGL looks pretty good and that's a good place to be as the largest NGL producer in this country. At the same time, both crude and natural gas are significantly lower than even what we realized and the industry realized for the first half. You probably do need to see some commodity help as we've indicated when we rolled out our transaction and gave our guidance to make sure that we then get to the third piece, which is increasing the distributions.

Faisel Hussain Khan - *Citigroup Inc, Research Division - MD*

Okay, that is clear. And then just one last question. I just want to make sure I understand the sequential sort of increasing cost and then the sort of the eventual decline in the cost structure of the company. So when you guys talk about higher costs associated with assets and liability, can you just give an example of what that means, like what did you have to spend on to make the asset more reliable?

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

Some of that is plant turnaround, some of that work, Faisel, is the normal maintenance that we do. Obviously, that drives reliability of our assets. We're very, very centralized in Q2. That will continue by the way into Q3, some of that work. But I think Q2 is the high peak. Some of that is also -- as you're doing work around the assets you're preparing for, which is a good thing, that we are seeing growth come online so you're doing some things to your assets and out in the field to prepare for incremental volumes. So that's what we saw in Q2. A lot of that we expected, some of that was accelerated real quick. I know it wasn't part of your question but I mentioned we -- this investment in technology, we have that in our expectations this year but we've accelerated some of that as well and that hit in Q2. As you think about going forward, some of that will continue into Q3. I think it's slightly lower levels. So hopefully, you'll see Q3 again as we've given guidance it's second half lower than the first half, I'll give you a little more granularity, expect Q3 to be lower than Q2, and then Q4, even to be lower than Q3. So that's kind of how we're thinking about the rest of the year on our costs.

Operator

Our next question comes from the line of Selman Akyol of Stifel.

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

I guess thinking about just sort of the north system in the DJ up there. It looked like your overall utilization was down from the first quarter, even though you saw fairly good strength within the DJ. So can you talk a little bit about I guess what's going on with the legacy systems up there?

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

Yes, I think probably what you're looking there is we have assets in Michigan that fall under our North business so there's some things in there. Also, maybe sales are predominantly treating that we're doing sort of treating volumes fairly low margins. But if you look at the DJ in and by itself, I can guarantee you that those are significantly up from where we were in the first quarter.

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

Got you. And then I'll just try this, so I think you referenced for the month of July, you had 845 million for the month of July. Can you just say what the second quarter average was for the DJ?

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

I don't have that here sitting in front of me but I'm sure that we can get that to you if we disclose that in detail.

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

Okay. And then also, just in terms of thinking about 2018 -- you've certainly talked about CapEx out there. Can you just talk about your plans for funding it?

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

Well, Selman, as we sit here today, we're fairly well capitalized, cash on hand of about $0.25 billion and the full facility available. As we're were thinking about next year, one thing I'll point out, these projects, their spend is pro rata. So the nice thing is it doesn't all hit in 1 lump sum. And

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some of it carries into '19. The majority of the capital we're showing you guys would be spend in '18. We would normally -- we would utilize our normal 50-50 cap structure. The debt markets are quite well right now. There are various options on the equity side of the equation, and we'll definitely continue to look at those options as we go forward. I think the good news is don't need to do anything this year. And I think that one thing to keep in mind is these projects, we give the multiples of these projects and they're very attractive. So my belief is when we do have to go out and raise some capital to fund some of these projects that, that will be received fairly well.

Operator

And our next question comes from the line of Chris Sighinolfi of Jefferies.

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

Just have a couple of clarification questions. I guess, Sean, to pick up on that last one with regard to financing. With the maturity coming later this fall, just wondering, you do have some -- obviously, some equity that you offset with hybrid instruments on the balance sheet. I'm just wondering if that hybrid market is of interest to you. You mentioned sort of equity-like instruments in that response. I'm just wondering where sort of the pecking order is at this point?

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

Yes, so here's how I'd look at it, Chris. When I talk about the maturity on the bond, obviously, we talk about flexibility. Those markets seem to be pretty strong right now. So the question, I think it's fair to think that we would go out and re-up that so and retake that out in the markets. Then, what you're left with, obviously, is funding some of the new growth as we get out of '17 because we have enough cash on hand to handle the capital. As you think about the products that we might use, I think you referenced -- obviously, there are some preferred projects out there for the high-yield customers that have some -- definitely some beneficial leverage, especially with the rating agencies, clauses, and we're definitely looking at those. You got to look at the demand for the traditional equity markets. We've been massive equity raisers over the last 5 to 6 years. We're very experienced. But some of those markets have gotten a little tight. Fund flows may not have been as strong as you'd like. So we're all looking at other projects, to answer you directly, things like preferred and stuff like that. I won't tell you that's exactly what we would use, but there seems to be, as we sit here today, some beneficial treatment if we were to utilize some of those projects. But again, we don't need equity in the short run, so we'll have to reassess that when -- next year when we may need some stuff. Last thing I would point out is over the years, we've been utilizers of our ATM program as well, which is a nice efficient way to raise equity.

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

Okay, that's really helpful. Some of those markets we don't look as closely at, so it's always helpful to get your perspective. I guess switching gears a little bit, there was some discussion of the equity earnings and you had mentioned in the release some of the recognitions on Discovery and some of the anticipations there as we move through the back half of the year. I was just curious, Sean, with regards to the distributions that you anticipate receiving from your JV affiliates, it's been pretty low in the first half of the year relative to what you had put forth as a full year expectation. I'm just wondering what, at this point, you're thinking for the full year given, a, what's happened here today; and your commentary about Discovery.

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

So Discovery would be an impact to, obviously, distributions and earnings. So I think you're picking up on that right, Chris. At the end of the day, I was trying to guide guidance more holistically. We gave -- obviously, we tightened the range on EBITDA. Our adjusted EBITDA and DCF tied to the commodity, and then I definitely gave you some more clarity on the maintenance side of the equation and the growth capital. On distributions, I think your thought process is right. I've given you a negative and we've been running a little bit lower. I mean, you had obviously the impact on Sand Hills in Q1, which affects distributions in excess. And then that won't come back this year even though the run rates come back, that's a permanent hit. So I think you're thinking about it right. I don't -- I haven't given direct guidance around modeling that exact input but I think you're

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thinking about it right in terms of lower levels tied to Discovery and lower levels tied to what happened in Q1. So I think your point is would you be on the lower end or lower, I think that would be probably accurate.

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

Okay. And then I have 2 other questions related to the hedge disclosures, I think it's Slide 15, both as implications of what's stated here and then just the practice in general. If I looked, Sean, at the third quarter, fourth quarter, first quarter NGLs hedged and the percentages that you gave there and sort of back in to what's an implied equity number, it looks like from where you were in February to where you are back half of '17 and then into '18, that that's a declining number in terms of equity NGL expectation. I was just wondering, is that due to contract restructuring? Am I seeing that right? I guess, am I seeing that right, a; and then b, is that due to ongoing contract restructuring? Or is there something else going on there?

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

Some of that is contract restructuring. We've talked about the contract realignment efforts. We didn't talk that much on this call, Chris, but there is definitely some of that going on as you get into the back half of the year. And then you've got the components at the end of the day. We're hedging -- I mentioned that the opportunities that we were able to get in and hedge are the butane and the propane side of the equation. So we're hedging those quite heavily but you still have an ethane position and you still have the heavier end of the barrel, which we haven't been hedging as much. So it gets to our weighting in those particular composites and then what we can hedge and then tied to some movement in our contracts, which is favorable around the rest of the year as we continue to move to fee.

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

Okay. And with regards to, I mean, the profile for hedges, we talked about this when you guys did the restructuring transaction in January, which was sort of the depths of the NGL market and the backwardation of it. I think you had some gas hedges at that point in time for the first quarter. We've seen those. We've added some NGL hedges. I'm just wondering, is there something about when you look at second quarter or further out in the curve that prices aren't what you want? And then second to that, and maybe this is the answer, you were mentioning earlier that the hedges you're putting in place are done at or above a 1x coverage. But in response to Faisel's question about distribution growth, you were talking about a target of 1.2x? So is the goal on like long-dated future hedges to have them priced such as that you're 1.2x covered or are you comfortable locking in hedges at 1.0x when your aspiration is 1.2x? Just help us understand that element.

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

Yes, a lot of questions in there but let me take it this way. We're -- obviously, we're trying to target to the 1.2x coverage ratio. That would include hedging as a tool. There's also increasing our fee-based margins at strong returns. There's all the things that we talked about today around continuing to drive efficiencies in our costs and those types of things. So to get to the 1.2x, it's a very broad strategy tied to all the things that affect our cash flow. As you think about now, just utilizing the hedging because that is one element that we've utilized and we will continue to utilize, we have tiering. Without giving you the full story on how we approach it, we have tiering and so there are levels that we would say we might be willing to extend at a 1.1x cover; some levels, we may at a 1.2x and so forth to get us in an aggregate to a point where we're comfortable, obviously, in the cash flows that we're going to drive in the future. The more volatility we can take off the table by hedging at those levels, the better. And then there's this duration of time, right? We think our fee-based percentages of our cash flow are going to grow over time, they have grown significantly over the last 2 years and based on the growth outlook that we've given you, they'll continue to grow. So that can change the strategy on how much we want to hedge at various tiers. But we are hedging, in many cases, at a 1.2x, at a 1.1x, maybe at a 1.05x in the aggregate. And again, as I mentioned earlier to another question, we never really hedged at the 100% level. We're trying to target that 80% fee or hedged. It's a great tool. I think the last question you asked is are you not always seeing the prices that you want? That is true. Obviously, we saw some movement in gas in Q1 so you can see that we were able to get some stuff done in Q1 of next year on gas that was there for a little bit, it popped out. And right now, the opportunities we're seeing for the remainder of this year are back to propane, butane this year. And as I mentioned, we were even able to get out and do some

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propane and butane in Q1. So yes, sometimes, we're not seeing the right prices, we're seeing either backwardation or not enough contango shape to get out there and hit our tiers. So hopefully, I think I've tried to answer all your questions.

Operator

Ladies and gentlemen, this does conclude the question-and-answer session. I would now like to turn the call back to Wouter van Kempen for closing remarks.

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

Thank you all for joining us today. As always, if you have any follow-up questions, please give Irene or Andrea a call, and we look forward to seeing you soon. Have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the call. You may now disconnect. Everyone have a wonderful day.

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