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USAC.N - Q2 2024 USA Compression Partners LP Earnings Call

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## CORPORATE PARTICIPANTS

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**Eric Long** *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

**Eric Scheller** *USA Compression Partners LP - Chief Operating Officer, Vice President*

## CONFERENCE CALL PARTICIPANTS

**Eli Jossen** *JPMorgan Chase & Co. - Analyst*

**Jim Rollyson** *Raymond James Financial, Inc. - Analyst*

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**Brian DiRubbio** *Robert W. Baird & Co. - Analyst*

**Josh Jayne** *Daniel Energy Partners - Analyst*

## PRESENTATION

### Operator

Good morning. Welcome to USA Compression Partners second quarter '24 earnings conference call. (Operator Instructions) This conference is being recorded today, August 6, 2024. I now would like to turn the call over to Chris Porter, Vice President, General Counsel and Secretary.

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**Christopher Porter** - *USA Compression Partners LP - Vice President, General Counsel, Secretary*

Good morning, everyone, and thank you for joining us. This morning, we released our operational and financial results for the quarter ending June 30, 2024. You can find a copy of our earnings release as well as recording of this call in the Investor Relations section of our website at [usacompression.com](http://usacompression.com).

During this call, our management will reference certain non-GAAP measures. You will find definitions and reconciliations of these non-GAAP measures to the most comparable US GAAP measures in our earnings release. As a reminder, our conference call will include forward-looking statements. These statements are based on management's current belief and include projections and expectations regarding our future performance and other forward-looking matters.

Actual results may differ materially from these statements. Please review the risk factors included in this morning's earnings release and in our other public filings. Please note that information provided on this call speaks only to management's views as of today, August 6, 2024, and may no longer be accurate at the time of a replay.

I'll now turn the call over to Eric Long, President and CEO of USA Compression.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Thank you, Chris. Good morning, everyone, and thanks for joining our call. I am joined on the call by Eric Scheller, our COO. This morning, we released our second quarter 2024 results, which reflect the continued strength of our business. Our second quarter ended with record revenues, record adjusted gross margin, record adjusted EBITDA, record average revenue generating horsepower and record average revenue per revenue-generating horsepower. Our period end utilization was at an all-time high and average utilization remained near an all-time high both at 95% with our large horsepower over 1,000 horsepower effectively fully utilized at 99%.

These results indicate a strong and stable contract compression market, which we believe will continue for the foreseeable future. Our results also reflect the continued impact of our disciplined approach in past periods of maintaining pricing levels that support our margin as we deployed horsepower. We now continue to increase pricing to record highs at essentially full utilization levels with extended contract tenors.

Our leverage ratio also continued its downward trend in line with our long-term goal between 3.75 times to 4.25 times reducing to 4.23 times. We expect this downward trend to continue as the impact from the adjusted EBITDA generated from the capital expenditures during the first half of the year, which were a majority of our expected capital expenditures for the year begin to fully impact our results.

As we mentioned last quarter, our distributable cash flow coverage ratio was very slightly impacted from the conversion of our Series A preferred units to common units by EIG. We are happy to report that EIG has sold all of the common units from the conversions during the first half of this year. We only have \$180 million in preferred units outstanding.

The remaining conversion of the preferred units will have a very, very small impact on our distributable cash flow coverage ratio, but will provide enhanced liquidity to our common unitholders. When all of the Series A preferred units are converted and the resulting common units are sold into the open market, we will have added almost 25 million common units to our public float with no resulting meaningful equity value dilution from the conversion.

Switching to our views of the near- and long-term environments for USA Compression and the general macro environment, which underlies our business. In the near term, we see steady and growing opportunities as our customers continue to maintain their steady, capital disciplined growth to support the increasing oil and natural gas demand drivers in the United States and globally. Due to our long-standing strategy of return-based pricing and margin discipline, which are consistently the highest margins in the contract compression space, we anticipate satisfying near-term demand with the previously outlined strategy of converting idle equipment to active status.

We were able to deploy this idle equipment with capital expenditures that are far less than if we were to purchase new compression equipment but maintain the pricing at attractive levels due to the tightness we are currently seeing in the natural gas compression market. Further, despite the high utilization within the contract compression industry, we have not seen a meaningful trend of our customers moving to purchase their own compression equipment, and we do not expect to see such a trend in the foreseeable future.

Obviously, these factors should continue to support our underlying financial fundamentals, our distribution policy and leverage goals long term. As a reminder, we believe focusing on our capital structure, including the eventual refinancing of our senior notes due 2027, renewing our credit facility and fully exiting our Series A preferred units is the prudent course of action before we consider changes to our distribution policy.

In the long term, we remain bullish on the natural gas compression market and the natural gas industry, which we believe will continue to support the growth of the contract natural gas compression industry. As we previously discussed, forecasted natural gas demand remains strong through 2050. We believe power generation, pipeline exports to Mexico and LNG exports will remain strong demand growth drivers for natural gas. Further, the continuing maturity of the Permian Basin will continue to require more natural gas compression as wells mature and the gas to oil ratio increases over time.

Regarding power demand, the continued electrification of the Permian Basin for the foreseeable future creates additional incremental power generation requirements for which we believe natural gas will be a primary player in the electrical generation mix to support baseload power generation needs. To provide you with some color on the electrification of the Permian Basin, ERCOT recently completed their five-year forecast of electrical demand that shows power demand in the Permian Basin growing to 24 gigawatts by 2030, approximately half of which is related to the oil and gas industry.

The other half of the growth comes from data centers, cryptocurrency, green hydrogen and other traditional industrial projects. To put that in context, the amount of growth would make the Permian Basin comparable to the power demand of the Houston coastal region.

Zooming out and looking at the entire power demand growth in the ERCOT region, ERCOT now forecast 152 gigawatts of power demand by 2030. The peak demand last summer, which was the all-time high, was approximately 85 gigawatts. So we will need almost twice the power generation in five years that we currently have in ERCOT. One of the primary drivers of this demand is data centers and artificial intelligence.

One tidbit, we recently heard from the CEO of ERCOT that we thought really painted the picture of the power demands of AI was that each microchip of the most recent generation used for AI requires the same amount of power as the average US home. Wow, that is a staggering amount of power that will be needed to support the AI revolution, and the most practical consistent power generation is currently natural gas fired power plants.

Given this increased need for power generation in the near future, including the large growth in the Permian region, which is our largest operating region, we have started the process to begin beta testing the ability of our dual drive compression units to generate power, allowing us to opportunistically sell power back to the grid when electricity prices are at attractive levels. It is currently too early to know the impact that opportunity presents to us, but we are very excited about its potential and why we believe our dual drive product offering will provide better value and more versatility to our customers than conventional standalone electric compression.

We view our dual drive product offering akin to the difference between a hybrid car and an all-electric car. Dual drive's ability to run on electricity or natural gas provides enhanced versatility as the electrical grid transformation that will be needed to support large horsepower electrical compression will take decades to complete. The addition of power generation to our dual drive product offering provides even greater value to us and our customers. Before turning the call over to Eric Scheller to discuss second-quarter results, I would like to make a few comments regarding safety.

The most important thing we do is to ensure that our employees, contractors and customers return home safely each day. We remain steadfastly committed to the continued development and improvements of our safety programs, culture and expertise so that we remain one of the safest operators in the oilfield. I appreciate each and every one of our employees' commitment to safety and the safety culture they have created at USA Compression.

With that I will turn the call over to Eric Scheller, our COO, to discuss our second-quarter highlights.

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**Eric Scheller** - USA Compression Partners LP - Chief Operating Officer, Vice President

Thanks, Eric, and good morning, all. As Eric noted, we were pleased to deliver our unitholders another excellent quarter of results. In addition to the record results Eric mentioned, we deployed approximately 41,000 additional horsepower during the quarter as we continued to deploy large horsepower units on contracts with extended tenor and enhanced pricing.

Our revenue continued to grow, driven primarily by increasing utilization exiting the quarter at an all-time high of 95% and pricing improvements also at an all-time high, averaging \$20.29 for the second quarter. Our revenue increased 3% in sequential quarters and 14% compared to the year ago period. The second quarter also saw our sector-leading margins of approximately 67% continue. As a reminder, we expect productivity improvements and contractual pass-through pricing adjustments to continue supporting our margins in line with our current levels over the long run regardless of foreseeable inflationary pressures.

Regarding financial results, our second quarter 2024 net income was \$31.2 million. Operating income was \$77.4 million. Net cash provided by operating activities was \$96.7 million and cash interest expense net was \$46.6 million. Cash interest expense increased by approximately \$1.9 million on a sequential quarter basis, primarily due to higher average outstanding borrowings.

However, higher cash interest expense was mitigated by \$2.5 million of cash payments received under our \$700 million notional principle fixed rate interest rate swap, which locks in 30 day SOFR until December 2025 at 3.9725% compared to the current 30 day SOFR that exceeds 5.25%. Under our current leverage ratio, this results in an interest rate of 6.47% on \$700 million of our credit facility borrowings.

Turning to operational results, our total fleet horsepower at the end of the quarter was approximately 3.9 million horsepower as we accepted delivery of 5,000 horsepower of new large horsepower units during the quarter. Our revenue-generating horsepower increased by 1% on a sequential

quarter basis, primarily due to the conversion of current fleet idle units to active status and the deployment of 10,000 horsepower of new large horsepower units as we had secured customer contracts prior to the delivery of the new units.

Second quarter 2024 expansion capital expenditures were \$67 million and our maintenance capital expenditures were \$8.9 million. Expansion capital spending continues to consist of reconfiguration and make-ready of idle units, along with the aforementioned delivery of 5,000 horsepower of new large horsepower units and the opportunistic acquisition of other large horsepower units in the market. We also expect additional and ongoing conversion of current fleet idle units to active status. Throughout the remainder of 2024, we anticipate the deployment of between 30,000 and 50,000 horsepower of existing uncontracted fleet assets at capital costs substantially below those of new organic growth equipment builds.

Finally, I am pleased to share that we are increasing our financial guidance for the full year 2024. Our net income range is now \$105 million to \$125 million. Adjusted EBITDA range is now \$565 million to \$585 million. And distributable cash flow range is now \$345 million to \$365 million.

And with that, I'll turn the call back to Eric Long for concluding remarks.

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**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Thank you, Eric. We are extremely proud of our second-quarter results. We continue to take advantage of the strong and stable compression market, which we believe will continue for the foreseeable future as natural gas demand for power generation, LNG and other uses continues to increase over the coming years. We are bullish on the long-term prospects of the natural gas industry and believe we are well positioned to continue enhancing unitholder value.

To conclude, we are extremely pleased with our second quarter 2024 results, highlighted again by record quarterly revenues, adjusted EBITDA and adjusted gross margin. We expect to file our Form 10-Q with the SEC as early as this afternoon. And with that, we will open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Jeremy Tonet, JPMorgan.

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**Eli Jossen** - JPMorgan Chase & Co. - Analyst

Hey. This is Eli on for Jeremy. I wanted to start on compression equipment lead times. It seems like we continue to see a hot compression market overall, but just wanted to get a sense of how lead times have evolved in the past few months and maybe more specifically, were there any of the -- or any of the delays discussed in your press release related to the ability to source equipment? Any color there would be great. Thanks.

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**Eric Scheller** - USA Compression Partners LP - Chief Operating Officer, Vice President

Hey, Eli. This is Eric Scheller. So materially the deliveries for units has not really come in. Supplies were discussed last quarter. I think we were still in the 30- to 40-week mark for engines and then add another 8 weeks to package. I think that we're continuing to see that kind of pace. I think that the demand remains so-so, and we haven't seen a material growth in the market for that.

**Eli Jossen** - *JPMorgan Chase & Co. - Analyst*

Got it. That's good color. Thank you. And then maybe as a follow-up, I just wanted to get a sense of kind of these elevated CapEx spend levels and how they drive longer-term growth. I know you guys revised everything up across all your guidance. But maybe just thinking about higher growth CapEx and how you might frame longer-term growth across the business with those elevated spend levels.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Yeah. This is Eric Long. We're coming into an election cycle, and needless to say, there's a lot of uncertainty with two very different approaches to the energy sector, depending on who ends up in control of the House, the Senate and the Executive branch. So we're approaching this with a little bit of caution right now.

Electric compression is a niche market right now. There are extremely long lead times for utility-scale transformers and equipment. Here we have ERCOT looking at basically doubling electric demand in the state of Texas. So you start to think about who's going to end up getting that electricity.

Clearly, it's going to be residential need. It's going to be hospitals. And when you look then at the competition for the molecules and who's willing to pay significantly higher electric costs, is it going to be an oil and gas company or is it going to be in AI data center?

So we're remaining very optimistic about the convergence of electricity and hydrocarbons long term with the caveat with the stroke of a regulatory pen, it could significantly alter which direction and course of the future. So the reason we are always somewhat conservative when there's a very clear direction, we mash the accelerator, and we grow.

We don't need to grow for the sake of growth, we grow for the sake of profitability. To the extent we can deploy the right type of equipment, larger horsepower equipment at economic returns, and we find attractive we'll continue to do so. So at this stage, the crystal ball is a little fuzzy. Let's wait and see the results of the election.

And if the election goes one direction, we think is extremely bullish for the conventional industry. If the election goes a different direction, TBD, what that's going to look like. And either direction we go, we think that our large horsepower fleet with our focus on the dual drive opportunities and distributed generation, is the differentiator between ourselves and our peers.

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**Eli Jossen** - *JPMorgan Chase & Co. - Analyst*

It's great. Thanks. I'll leave it there.

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**Operator**

Jim Rollyson, Raymond James.

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**Jim Rollyson** - *Raymond James Financial, Inc. - Analyst*

Good morning, Eric, and Eric.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Good morning, Jim.

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**Jim Rollyson** - *Raymond James Financial, Inc. - Analyst*

Maybe just start with Eric. So growth CapEx is up a bit from where you were before. And we've obviously heard one of your peers report already this earning season and talking about bookings into '25 and beyond and still seeing strength in from the customer inquiry perspective.

Just maybe if you could talk about kind of how you're seeing that order book build and maybe just from a high level, how you're thinking about growth CapEx into next year? I imagine your political answer you just gave is probably part of that equation. But just generically from a market perspective, how are you thinking about that going into '25?

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**Eric Scheller** - *USA Compression Partners LP - Chief Operating Officer, Vice President*

Hey James. Eric Scheller. So we are very optimistic as Eric just said about where we think things are going. That also drove the CapEx. We're looking to optimizing the rest of the assets that we have available to us either idle to active or components and depending on how you view the different basins and the volumes coming across, we're seeing the demand continue apace from all of our customers as they continue to optimize those fields in service of their producers.

So we like what we're seeing in the book. We did have to accelerate a little bit of capital to take advantage of some of the ordering that we're seeing, certainly in the back half of the year and what's coming in first half of next year. We still like the growth. It's growth at a pace that makes sense for us. It's not wildly out of line for how we can do it. But given when you look at our existing utilization, how high it is and the quality of the service that we're providing, we want to make sure that we've got good equipment going out in support of them.

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**Jim Rollyson** - *Raymond James Financial, Inc. - Analyst*

Makes perfect sense. And on the operating cost side was up a little bit this quarter. And I know historically when you guys are reactivating idle equipment, which you're obviously spending some of your capital focus on today, you can kind of get that popping up from a make-ready perspective. Just curious how we should think about kind of cost inflation on the OpEx side as we run through this year and into next.

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**Eric Scheller** - *USA Compression Partners LP - Chief Operating Officer, Vice President*

So for us with the lag on inflation, we still see that some of that coming through. We continue to deal with inflation on labor. That market hasn't quite cooled, as everybody knows. And so and even when you see an aggregate 3.5% coming out from the government and it's higher for the labor piece, we have to deploy people to go check out the units that -- and the equipment that's available for the idle to active return.

So we've got to make that upfront assessment with those folks and that does cost me a little money. I think as we get these units into the shops and get them deployed, you'll see some of that roll off. But as we continue to deploy, we have a good labor stats and a good number of people in the labor force working to keep the units at a high rate of utilization. So is that going to wash, probably.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Yeah, Jim, you saw this morning or -- yesterday, Caterpillar announced their earnings this morning and showed that their sales growth was down, but their profitability was up. So Caterpillar has continued to push through very significant rate increases. There's a high demand for electric generation backup equipment for the data centers, which are the same basic engines that the natural gas compression uses the big 1,500 horsepower up to 2,500 horsepower assets.

So there will continue to be competitive tension for the engines. There's only so many of these engines that Caterpillar can manufacture. And to the extent that there's demand for data centers and compression and marine and other prime and secondary power applications, we envision Caterpillar is going to continue to push rate and push the cost up on their equipment. So we think there will continue to be some competitive tension, particularly as it pertains to new CapEx growth.

And those will be things that all of us in the industry take into consideration as we look at '25, '26 and beyond with our customers and it remains to be seen what our customers are willing to commit to. So nobody commits to build big horsepower stuff for a short deployment term, people are looking for extended employment tenors or deployment tenors and this equipment is expensive.

And correspondingly, then the monthly service fees go up. So as part of the yin and yang going on right now in our industry versus our customers. Yeah, you want the stuff, but the stuff a lot more expensive than we're not going to give the stuff away. We need to make our historical returns, and it's going to be an interesting few years coming up to see how this all plays out, particularly in light of the regulatory environment.

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**Jim Rollyson** - *Raymond James Financial, Inc. - Analyst*

Yes. I appreciate the detailed answers, guys. Thanks.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Thank you.

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**Operator**

Selman Akyol, Stifel.

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**Selman Akyol** - *Stifel Financial Corp. - Analyst*

Good morning. Thank you, guys for the color so far. Just wanted to understand a little bit more about data centers. And as I think about compression, we're hearing more and more about behind the meter. And so to the extent that data centers get built behind the meter, does that drive demand for the compression you provide?

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

It absolutely can. So you think about the compression for data centers or generation for data centers, people have -- are morphing and migrating data center compression away from diesel-driven backup more and more toward natural gas backup. So if you think about a behind-the-meter generator that's burning natural gas is going to increase demand at that retail site, so to speak. So how does that affect us? Well, we're in gathering systems out in the Permian Basin.

There's going to be increased takeaway coming out of the Permian. There's going to be increased capacity feeding into those pipes and where is the outlet of those pipes going to end up? Behind the meter data centers in many cases. So it's a pull-through effect and it's very beneficial for all of us. As well, as some of us who are playing on the distributed generation and either behind the meter ourselves or actually feeding into the grid on a prime basis.

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**Selman Akyol** - *Stifel Financial Corp. - Analyst*

Got it. Thank you very much for that. And then in terms of your idle fleet that you're making ready, can you just maybe talk about -- can that be reconfigured to be large horsepower? Or is it already large horsepower?



**Eric Scheller** - USA Compression Partners LP - Chief Operating Officer, Vice President

Hey, Selman. It's Eric Scheller. We have some mix of small and large. We prefer to get the large stuff out. There's a greater demand. People are looking for dropping that stuff in at central processing points or gathering points. So we've had some combination to deploy. We have also some additional assets in the back that we can package up and satisfy some demand.

I think we're seeing in some of the reconfiguration demand based on field pressures and traveling those units from some basins to other, that requires us to touch them. But I think between what we have on the ground and what we have in inventory that we could redeploy for package, we have adequate supply to continue forward here for the next two quarters, three quarters.

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**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Yeah. A little more color, Selman. If you think about like a 200-horsepower wellhead compressor package versus a 2,500-horsepower big gas lift unit, you really can't take 12 -- 200 horsepower guys and string them together and make the equivalent of a 2,400, 2,500 horsepower package. So envision a Hyundai versus a giant bus, right? You can't convert a little Hyundai into a bus. So the size of the 2,500-horsepower engine is probably twice as long and twice as wide as the entire 200-horsepower package.

So you really can't convert a little thing to a big thing or a big thing to a little thing. There are different mission types. It's no different than saying, I've got a twin-engine King Air versus a 747. The King Air doesn't fly 12-hour international routes, different mission type, different technical applications and really, they're very different types of assets.

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**Selman Akyol** - Stifel Financial Corp. - Analyst

Got it. I appreciate that. Two more quick ones for me. Just on the pricing adjustments that you guys referenced, how much of the fleet is subject to that?

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**Eric Scheller** - USA Compression Partners LP - Chief Operating Officer, Vice President

Hey, Selman. This is Scheller. So we have a rolling schedule that goes through time. Our contracts are laddered no different than any other business bonds, we don't like them to call, come, due at the same time. All those contracts on primary term are subject to some adjustments at the end of those -- in the anniversaries of those contracts. So we're always looking every month on what's the active renewals that are going on, what's subject to adjustments every month. And that's why we're able to continue to manage the price book as we do.

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**Selman Akyol** - Stifel Financial Corp. - Analyst

Got it. And then the last one, you guys mentioned in your opening comments, opportunistic acquisitions. Could you maybe just discuss that a little bit more? And do you see more of that out there?

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**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Yeah, this is Eric. And we generally don't comment on acquisition activity. I'll give you a little color. There are opportunistic asset packages that we are able to source. We've acquired some equipment that's two, three years old that was deployed, maybe the gas stream didn't show up, contracts didn't materialize and owner-operators, some of the E&P companies or midstream guys look at it and go well, this project didn't work out, what do we do with the excess compression.

So we've been able to source opportunistically some of that type of equipment. You can envision that in some of the dry gas areas where the economics may have changed a little bit from the E&P perspective. There are some assets that we've been able to purchase at extremely attractive

pricing, basically new equipment for less new replacement cost. There are other pockets of opportunity, ranging from onesies and twosies to very large fleets to some private companies from an M&A perspective.

So it's -- there are a lot of opportunities out there. We are laser focused on things that are accretive, things that would be leverage neutral to leverage delevering positive for us. So there's plenty of opportunities to focus on. And I think as I reiterated, we don't grow for the sake of growth. We grow for the sake of profitability. And to the extent we can find things that opportunistically make sense, ranging small horsepower, meaning big horsepower, but small amounts of it, to very large fleets to some corporate acquisitions. They meet our criteria. We'll see. But there's plenty of opportunities out there for us.

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**Selman Akyol** - *Stifel Financial Corp. - Analyst*

Appreciate the color and the time. Thank you.

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Thank you.

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**Operator**

Brian DiRubbio, Baird.

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**Brian DiRubbio** - *Robert W. Baird & Co. - Analyst*

Good morning. Just a few questions for me. Eric Long, what percentage units would you say today are associated with gas lift?

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

40%-ish to 50%-ish.

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**Brian DiRubbio** - *Robert W. Baird & Co. - Analyst*

Great. Is that mostly in the Permian?

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**Eric Long** - *USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner*

Yes.

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**Brian DiRubbio** - *Robert W. Baird & Co. - Analyst*

Great. Thank you. And then just as it pertains to the interest rate hedge, given the expectation for the Fed to start lowering rates, is that something that you're thinking about selling in the open market and capturing a gain?

**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

That's always an opportunity to do so. We've got a Board meeting coming up here soon. And obviously, we will be addressing those topics with our Board. I think what we've indicated regarding our capital structure in general as we intend to be opportunistic. So one of the elements to look at, of course, is the timing of that hedge, do you monetize the hedge? Do we let the hedge roll off naturally? That will be something that we work through with our bank group and our Board to determine the best path of action to pursue on that.

**Brian DiRubbio** - Robert W. Baird & Co. - Analyst

Okay. Did you ever disclose how much you paid for that hedge?

**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

It was a non-cost collar. So there was -- it cost us 0.

**Brian DiRubbio** - Robert W. Baird & Co. - Analyst

Great. And then just as we think about the full CapEx spend this year, is maintenance CapEx supposed to be \$32 million or is that moving higher as well?

**Eric Scheller** - USA Compression Partners LP - Chief Operating Officer, Vice President

No. That continues at that pace.

**Brian DiRubbio** - Robert W. Baird & Co. - Analyst

Great. And just final question for me. As you mentioned in the last couple of calls, you consider changes in distribution policy post the extinguishment of the preferred and the refi the 27 notes. Is it fair to assume that the bias is to then increase that distribution rate on the common units at that point?

**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

I wouldn't necessarily make that assumption. We look at the flexibility that it provides. That's a decision that our Board will make at that point in time. What we're paid to do is to create optionality and provide our Board with the flexibility to pursue whichever course of action that they pursue. So I wouldn't assume that that's automatically going to happen, but I would assume that that's something that will be revisited with the Board as part of their strategic decisions of the direction for the company.

**Brian DiRubbio** - Robert W. Baird & Co. - Analyst

Fair enough. Appreciate all the color. Thank you.

**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Thank you, sir.

**Operator**

Josh Jayne, Daniel Energy Partners.

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**Josh Jayne** - Daniel Energy Partners - Analyst

Thanks. Good morning. I wanted to follow up on pricing just in the context of your comment that customers haven't moved to purchase their own compression equipment. Could you discuss just what would have to happen for customers to move in that direction? How much further you have from a runway perspective on pricing, et cetera? It would just be helpful to talk about that and expand on it a little bit more.

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**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Yeah. Obviously, Josh, there's a lot of variables that go into that. Some of it is what is the strategic approach from our customers. E&Ps have different perspectives, some outsource all compression, some outsource half and own half, some acquire 100% on their own. So different people are approaching it different ways. Midstream look at it differently than E&P and they look at it differently between different basins, dry gas and rich gas.

So I think what's driving this are the cost of capital, their deployment cycles, what is base load versus what is variabilized compression. And that still continues as you increase production coming out of the Permian or the Eagle Ford or whatever basin you see incremental horsepower is required and it depends which customer you're talking to.

So our customers have a mix of everything from 100% owned, where we do some retail activities where assets are interspersed amongst existing assets we have. We've got customers that are half owned and half contract compression where we oftentimes provide some retail activities on their company-owned machines. And then we've got customers at 100% outsourced.

I think what's driving their decisions are, what's their development plan going to look like? Do they match the accelerator? Do they grow 3%, 5%, 8% per year? Do they exhibit no growth? The larger players who have more acreage to promulgate and develop guys that have done some of the M&A things were rationalizing assets, determining I've got too much here. I don't have enough here.

So there's a lot of moving pieces associated with it. But I think the simple construct is, the equipment costs are a lot higher than they were three, four, five years ago. They're continuing to go up. There are some sticker shock associated with it. So regardless of if they buy it or if they outsource it, their costs are going to go up. They have to pay for this stuff. So part of what we do as a logistics company is optimize our fleet, their fleets, other's fleets, so that instead of having some underutilized horsepower stuff that's not in the right location, we, in concert with our customers are always looking to optimize the system, so we can deploy and redeploy existing assets that by definition, have a lower cost of capital than the newer assets. So I think there's a lot of dynamics going on. I don't see a material change from our customers saying, I'm going to move from outsourcing to owning everything. I don't see companies going from we own everything to outsourcing it all.

I think there's, again, kind of the combination of what they have always done, they're going to continue to do and just have to wrap their head around the cost of the new equipment that's coming out of Caterpillar and others, just the stuffs expensive.

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**Josh Jayne** - Daniel Energy Partners - Analyst

Okay. Thanks for all that color. I appreciate it. And then my follow-up, I think it's pretty timely your comments around the grid and power and especially what's going on here in Texas. I was just curious if you could go into a little bit more what you talked about earlier with the dual-drive compression units, their ability to generate power and potentially sell it back longer term. Could you expand on that a bit more on what you view as the opportunity over the next couple of years?

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**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Not at this stage. That's a competitive trade secret that we have, and that's one that we're sprinkling some breadcrumbs just to get some exposure to folks, but it's -- from a competitive perspective, we're not going to go into any detail today.

**Josh Jayne** - Daniel Energy Partners - Analyst

Understood. Thank you.

**Eric Long** - USA Compression Partners LP - President, Chief Executive Officer, Director of General Partner

Thank you.

**Operator**

There is no more question at this time. This concludes the question-and-answer session. And now, this also concludes today's conference call. Thank you all for joining. You may now disconnect.

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