

DCP Midstream, LP  
Form 10-Q  
August 08, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32678

DCP MIDSTREAM, LP  
(Exact name of registrant as specified in its charter)

Delaware 03-0567133  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

370 17th Street, Suite 2500 80202  
Denver, Colorado  
(Address of principal executive offices) (Zip Code)  
(303) 595-3331

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 3, 2018, there were 143,309,828 common units representing limited partner interests outstanding.

---

DCP MIDSTREAM, LP  
 FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018  
 TABLE OF CONTENTS

Item	Page
PART I. FINANCIAL INFORMATION	
1. Financial Statements (unaudited):	
Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	<u>1</u>
Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017	<u>2</u>
Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017	<u>3</u>
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017	<u>4</u>
Condensed Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2018	<u>5</u>
Condensed Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2017	<u>6</u>
Notes to the Condensed Consolidated Financial Statements	<u>7</u>
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>45</u>
3. Quantitative and Qualitative Disclosures about Market Risk	<u>68</u>
4. Controls and Procedures	<u>71</u>
PART II. OTHER INFORMATION	
1. Legal Proceedings	<u>72</u>
1A. Risk Factors	<u>72</u>
6. Exhibits	<u>73</u>
Signatures	<u>74</u>

## GLOSSARY OF TERMS

The following is a list of certain industry terms used throughout this report:

Bbl	barrel
Bbls/d	barrels per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
Btu	British thermal unit, a measurement of energy
Fractionation	the process by which natural gas liquids are separated into individual components
MBbls	thousand barrels
MBbls/d	thousand barrels per day
MMBtu	million Btus
MMBtu/d	million Btus per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
Throughput	the volume of product transported or passing through a pipeline or other facility

## CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Our reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as “may,” “could,” “should,” “intend,” “assume,” “project,” “believe,” “anticipate,” “expect,” “estimate,” “potential,” “plan,” “forecast” and other similar words.

All statements that are not statements of historical facts, including, but not limited to, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, including the following risks and uncertainties:

- the extent of changes in commodity prices and the demand for our products and services, our ability to effectively limit a portion of the adverse impact of potential changes in commodity prices through derivative financial instruments, and the potential impact of price, and of producers’ access to capital on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;
- the demand for crude oil, residue gas and NGL products;
- the level and success of drilling and quality of production volumes around our assets and our ability to connect supplies to our gathering and processing systems, as well as our residue gas and NGL infrastructure;
- volatility in the price of our common units;
- general economic, market and business conditions;
- our ability to continue the safe and reliable operation of our assets;
- our ability to construct and start up facilities on budget and in a timely fashion, which is partially dependent on obtaining required construction, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for materials;
- our ability to access the debt and equity markets and the resulting cost of capital, which will depend on general market conditions, our financial and operating results, inflation rates, interest rates, our ability to comply with the covenants in our \$1.4 billion unsecured revolving Credit Agreement (the “Credit Agreement”) or other credit facilities, and the indentures governing our notes, as well as our ability to maintain our credit ratings;
- the creditworthiness of our customers and the counterparties to our transactions;
- the amount of collateral we may be required to post from time to time in our transactions;
- industry changes, including the impact of bankruptcies, consolidations, alternative energy sources, technological advances, infrastructure constraints and changes in competition;
- our ability to grow through organic growth projects, or acquisitions, and the successful integration and future performance of such assets;
- our ability to hire, train, and retain qualified personnel and key management to execute our business strategy;
- new, additions to, and changes in, laws and regulations, particularly with regard to taxes, safety, regulatory and protection of the environment, including, but not limited to, climate change legislation, regulation of over-the-counter derivatives market and entities, and hydraulic fracturing regulations, or the increased regulation of our industry, and their impact on producers and customers served by our systems;
- weather, weather-related conditions and other natural phenomena, including, but not limited to, their potential impact on demand for the commodities we sell and the operation of company-owned and third party-owned infrastructure;
- security threats such as military campaigns, terrorist attacks, and cybersecurity attacks and breaches, against, or otherwise impacting, our facilities and systems;
- our ability to obtain insurance on commercially reasonable terms, if at all, as well as the adequacy of insurance to cover our losses; and

the amount of natural gas we gather, compress, treat, process, transport, store and sell, or the NGLs we produce, fractionate, transport, store and sell, may be reduced if the pipelines and storage and fractionation facilities to which we deliver the natural gas or NGLs are capacity constrained and cannot, or will not, accept the natural gas or NGLs. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. The forward-looking statements in this report speak as of the filing date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

iii

---

## PART I

## Item 1. Financial Statements (Unaudited)

## DCP MIDSTREAM, LP

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2018	December 31, 2017
	(millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4	\$156
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$6 and \$8 million, respectively	824	773
Affiliates	189	191
Other	16	17
Inventories	47	68
Unrealized gains on derivative instruments	45	30
Collateral cash deposits	138	75
Other	19	12
Total current assets	1,282	1,322
Property, plant and equipment, net	9,080	8,983
Goodwill	231	231
Intangible assets, net	101	106
Investments in unconsolidated affiliates	3,165	3,050
Unrealized gains on derivative instruments	8	3
Other long-term assets	174	183
Total assets	\$14,041	\$13,878
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$968	\$989
Affiliates	112	68
Other	27	19
Current maturities of long-term debt	325	—
Unrealized losses on derivative instruments	141	76
Accrued interest	71	71
Accrued taxes	60	58
Accrued wages and benefits	42	65
Capital spending accrual	33	39
Other	108	103
Total current liabilities	1,887	1,488
Long-term debt	4,510	4,707
Unrealized losses on derivative instruments	29	15
Deferred income taxes	29	29
Other long-term liabilities	233	201
Total liabilities	6,688	6,440
Commitments and contingent liabilities (see note 14)		
Equity:		
Series A preferred limited partners (500,000 preferred units authorized, issued and outstanding, respectively)	488	491

Edgar Filing: DCP Midstream, LP - Form 10-Q

Series B preferred limited partners (6,450,000 preferred units authorized, issued and outstanding, respectively)	157	—	
General partner	109	154	
Limited partners (143,309,828 and 143,309,828 common units authorized, issued and outstanding, respectively)	6,577	6,772	
Accumulated other comprehensive loss	(8	) (9	)
Total partners' equity	7,323	7,408	
Noncontrolling interests	30	30	
Total equity	7,353	7,438	
Total liabilities and equity	\$ 14,041	\$ 13,878	

See accompanying notes to condensed consolidated financial statements.

1

---



DCP MIDSTREAM, LP  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
	(millions, except per unit amounts)			
Operating revenues:				
Sales of natural gas, NGLs and condensate	\$1,849	\$1,494	\$3,593	\$3,138
Sales of natural gas, NGLs and condensate to affiliates	408	278	733	567
Transportation, processing and other	127	155	238	312
Trading and marketing (losses) gains, net	(67 )	22	(108 )	53
Total operating revenues	2,317	1,949	4,456	4,070
Operating costs and expenses:				
Purchases and related costs	1,703	1,419	3,307	2,978
Purchases and related costs from affiliates	225	138	390	266
Operating and maintenance expense	185	178	347	345
Depreciation and amortization expense	97	94	191	188
General and administrative expense	70	71	129	133
Other expense, net	3	5	5	15
Gain on sale of assets, net	—	(34 )	—	(34 )
Total operating costs and expenses	2,283	1,871	4,369	3,891
Operating income	34	78	87	179
Earnings from unconsolidated affiliates	96	86	174	160
Interest expense, net	(67 )	(73 )	(134 )	(146 )
Income before income taxes	63	91	127	193
Income tax expense	(1 )	(2 )	(2 )	(3 )
Net income	62	89	125	190
Net income attributable to noncontrolling interests	(1 )	(1 )	(2 )	(1 )
Net income attributable to partners	61	88	123	189
Series A preferred limited partners' interest in net income	(9 )	—	(18 )	—
Series B preferred limited partners' interest in net income	(2 )	—	(2 )	—
General partner's interest in net income	(40 )	(41 )	(81 )	(83 )
Net income allocable to limited partners	\$10	\$47	\$22	\$106
Net income per limited partner unit — basic and diluted	\$0.07	\$0.33	\$0.15	\$0.74
Weighted-average limited partner units outstanding — basic and diluted	143.3	143.3	143.3	143.3

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM, LP  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(millions)			
Net income	\$62	\$89	\$125	\$190
Other comprehensive income:				
Reclassification of cash flow hedge losses into earnings	1	—	1	1
Total other comprehensive income	1	—	1	1
Total comprehensive income	63	89	126	191
Total comprehensive income attributable to noncontrolling interests	(1 )	(1 )	(2 )	(1 )
Total comprehensive income attributable to partners	\$62	\$88	\$124	\$190

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM, LP  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(millions)	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 125	\$ 190
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	191	188
Earnings from unconsolidated affiliates	(174 )	(160 )
Distributions from unconsolidated affiliates	193	177
Net unrealized losses (gains) on derivative instruments	66	(60 )
Gain on sale of assets, net	—	(34 )
Other, net	9	21
Change in operating assets and liabilities, which provided (used) cash, net of effects of acquisitions:		
Accounts receivable	(50 )	98
Inventories	21	21
Accounts payable	42	(137 )
Other assets and liabilities	(92 )	56
Net cash provided by operating activities	331	360
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(268 )	(159 )
Investments in unconsolidated affiliates, net	(126 )	(41 )
Proceeds from sale of assets	3	129
Net cash used in investing activities	(391 )	(71 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	1,803	—
Payments of long-term debt	(1,678)	(195 )
Proceeds from issuance of preferred limited partner units, net of offering costs	155	—
Distributions to preferred limited partners	(21 )	—
Net change in advances to predecessor from DCP Midstream, LLC	—	418
Distributions to limited partners and general partner	(349 )	(256 )
Distributions to noncontrolling interests	(2 )	(4 )
Other	—	(2 )
Net cash used in financing activities	(92 )	(39 )
Net change in cash and cash equivalents	(152 )	250
Cash and cash equivalents, beginning of period	156	1
Cash and cash equivalents, end of period	\$ 4	\$ 251

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM, LP  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(Unaudited)

	Partners' Equity				Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Series A Preferred Limited Partners	Series B Preferred Limited Partners	Limited Partners	General Partner			
	(millions)						
Balance, January 1, 2018	\$ 491	\$ —	\$6,772	\$ 154	\$ (9 )	\$ 30	\$7,438
Cumulative-effect adjustment (see Note 2)	—	—	6	—	—	—	6
Net income	18	2	22	81	—	2	125
Other comprehensive income	—	—	—	—	1	—	1
Issuance of 6,450,000 Series B Preferred Units	—	155	—	—	—	—	155
Distributions to unitholders	(21 )	—	(223 )	(126 )	—	—	(370 )
Distributions to noncontrolling interests	—	—	—	—	—	(2 )	(2 )
Balance, June 30, 2018	\$ 488	\$ 157	\$6,577	\$ 109	\$ (8 )	\$ 30	\$7,353

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM, LP  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 (Unaudited)

	Partners' Equity			Accumulated		Total Equity
	Predecessor Equity	Limited Partners	General Partner	Other Comprehensive Loss	Noncontrolling Interests	
	(millions)					
Balance, January 1, 2017	\$4,220	\$2,591	\$ 18	\$ (8 )	\$ 32	\$6,853
Net income	—	106	83	—	1	190
Other comprehensive income	—	—	—	1	—	1
Net change in parent advances	—	418	—	—	—	418
Acquisition of the DCP Midstream Business	(4,220 )	—	—	—	—	(4,220 )
Deficit purchase price	—	3,094	—	(2 )	—	3,092
Issuance of 28,552,480 common units and 2,550,644 general partner units to DCP Midstream, LLC and affiliate	—	1,033	92	—	—	1,125
Distributions to limited partners and general partner	—	(202 )	(54 )	—	—	(256 )
Distributions to noncontrolling interests	—	—	—	—	(4 )	(4 )
Balance, June 30, 2017	\$—	\$7,040	\$ 139	\$ (9 )	\$ 29	\$7,199

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM, LP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Three and Six Months Ended June 30, 2018 and 2017  
(Unaudited)

1. Description of Business and Basis of Presentation

DCP Midstream, LP, with its consolidated subsidiaries, or "us", "we", "our" or the "Partnership" is a Delaware limited partnership formed in 2005 by DCP Midstream, LLC to own, operate, acquire and develop a diversified portfolio of complementary midstream energy assets.

Our Partnership includes our Gathering and Processing and Logistics and Marketing segments. For additional information regarding these segments, see Note 15 - Business Segments.

Our operations and activities are managed by our general partner, DCP Midstream GP, LP, which in turn is managed by its general partner, DCP Midstream GP, LLC, which we refer to as the General Partner, and which is 100% owned by DCP Midstream, LLC. DCP Midstream, LLC and its subsidiaries and affiliates, collectively referred to as DCP Midstream, LLC, is owned 50% by Phillips 66 and 50% by Enbridge Inc. and its affiliates, or Enbridge. DCP Midstream, LLC directs our business operations through its ownership and control of the General Partner. As of June 30, 2018, DCP Midstream, LLC owned approximately 38.1% of us, including limited partner and general partner interests.

The condensed consolidated financial statements include the accounts of the Partnership and all majority-owned subsidiaries where we have the ability to exercise control. Investments in greater than 20% owned affiliates that are not variable interest entities and where we do not have the ability to exercise control, and investments in less than 20% owned affiliates where we have the ability to exercise significant influence, are accounted for using the equity method. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, these condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective interim periods. Certain information and note disclosures normally included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted from these interim financial statements pursuant to such rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. Results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited condensed consolidated financial statements and other information included in this Quarterly Report on Form 10-Q should be read in conjunction with the 2017 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017..

## DCP MIDSTREAM, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2018 and 2017 - (Continued)

(Unaudited)

## 2. New Accounting Pronouncements

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” or ASU 2016-15 - In August 2016, the FASB issued ASU 2016-15, which amends certain cash flow statement classification guidance. We adopted the ASU on January 1, 2018 and it has not had any impact on our condensed consolidated results of operations, cash flows and financial position.

FASB ASU, 2016-02 “Leases (Topic 842),” or ASU 2016-02 - In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize a lease liability on a discounted basis and the right of use of a specified asset at the commencement date for all leases. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018, with the option to early adopt for financial statements that have not been issued. We are currently evaluating the potential impact this standard will have on our condensed consolidated financial statements and related disclosures.

FASB ASU 2014-09 “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09 and related interpretations and amendments - In May 2014, the FASB issued ASU 2014-09, which supersedes the revenue recognition requirements of Accounting Standards Codification Topic 605 “Revenue Recognition.” We adopted this ASU on January 1, 2018 using the modified retrospective method for contracts that were not completed as of the date of adoption. Under this method, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those prior periods. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We recognized the initial cumulative effect of applying this ASU as an adjustment to the opening balance of total partners’ equity.

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated statement of operations was as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Effect of Change	Presentation Without Adoption of ASC 606	As Reported	Effect of Change	Presentation Without Adoption of ASC 606
	(millions)					
Statement of Operations						
Operating revenues						
Sales of natural gas, NGLs and condensate	\$ 1,849	\$ 44	\$ 1,893	\$ 3,593	\$ 75	\$ 3,668
Transportation, processing and other	\$ 127	\$ 39	\$ 166	\$ 238	\$ 79	\$ 317
Costs and expenses						
Purchases and related costs	\$ 1,703	\$ 83	\$ 1,786	\$ 3,307	\$ 154	\$ 3,461
Net income	\$ 62	\$ —	\$ 62	\$ 125	\$ —	\$ 125

## 3. Revenue Recognition

Our operating revenues are primarily derived from the following activities:

- sales of natural gas, NGLs, and condensate;
- services related to gathering, compressing, treating and processing NGLs and natural gas; and
- services related to transportation and storage of natural gas and NGLs.

Sales of natural gas, NGLs and condensate - We sell our commodities to a variety of customers ranging from large, multi-national petrochemical and refining companies to regional retail propane distributors. We recognize revenue from commodity sales at the point in time when the product is delivered to the customer. Generally, the transaction price is determined at the time of each delivery as the uncertainty of commodity pricing is resolved. Customers usually pay monthly based on the products purchased that month.



DCP MIDSTREAM, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2018 and 2017 - (Continued)

(Unaudited)

Sales of natural gas, NGLs and condensate include physical sales contracts which qualify as financial derivative instruments, and buy-sell and exchange transactions which involve purchases and sales of inventory with the same counterparty that are legally contingent or in contemplation of one another as a single transaction on a combined net basis. Neither of these types of arrangements are contracts with customers within the scope of Topic 606.

Gathering, compressing, treating and processing natural gas - For natural gas gathering and processing activities, we receive either fees and/or a percentage of proceeds from commodity sales as payment for these services, depending on the type of contract. For gathering and processing agreements within the scope of Topic 606, we recognize the revenue associated with our services when the gas is gathered, treated or processed at our facilities. Under fee-based contracts, we receive a fee for our services based on throughput volumes. Under percent-of-proceeds contracts, we receive either an agreed upon percentage of the actual proceeds received from our sale of the residue natural gas and NGLs or an agreed upon percentage based on index related prices for the natural gas and NGLs. Our percent-of-proceeds contracts may also include a fee-based component.

Transportation and storage - Revenue from transportation and storage agreements is recognized based on contracted volumes transported and stored in the period the services are provided.

Our service contracts generally have terms that extend beyond one year, and are recognized over time. The performance obligation for most of our service contracts encompasses a series of distinct services performed on discrete daily quantities of natural gas or NGLs for purposes of allocating variable consideration and recognizing revenue while the customer simultaneously receives and consumes the benefits of the services provided. Revenue is recognized over time consistent with the transfer of good or service over time to the customer based on daily volumes delivered. Consideration is generally variable, and the transaction price cannot be determined at the inception of the contract, because the volume of natural gas or NGLs for which the service is provided is only specified on a daily or monthly basis. The transaction price is determined at the time the service is provided and the uncertainty is resolved. Customers usually pay monthly based on the services performed that month.

Purchase arrangements - Under purchase arrangements, we purchase natural gas at either the wellhead or the tailgate of a plant. These purchase arrangements represent an arrangement with a supplier and are recorded in "Purchases and related costs". Often, we earn fees for services performed prior to taking control of the product in these arrangements and service revenue is recorded for these fees. Revenue generated from the sale of product obtained in these purchase arrangements are reported as "Sales of natural gas, NGLs and condensate" on the consolidated statements of operations and are recognized on a gross basis as we purchase and take control of the product prior to sale and are the principal in the transaction.

Practical expedients - We apply the practical expedients in Topic 606 and do not disclose information about transaction prices allocated to remaining performance obligations that have original expected durations of one year or less, nor do we disclose information about transaction prices allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation.

We disaggregate our revenue from contracts with customers by type for each of our reportable segments, as we believe it best depicts the nature, timing and uncertainty of our revenue and cash flows. The following tables set forth our revenue by those categories:

Revenue by type was as follows:

Edgar Filing: DCP Midstream, LP - Form 10-Q

Three Months Ended June 30, 2018

	Gathering and Processing (millions)	Logistics and Marketing	Eliminations	Total
Sales of natural gas	\$ 398	\$ 463	\$ (353 )	\$ 508
Sales of NGLs and condensate (a)	870	1,714	(835 )	1,749
Transportation, processing and other	112	16	(1 )	127
Trading and marketing losses, net (c)	(66 )	(1 )	—	(67 )
Total operating revenues	\$ 1,314	\$ 2,192	\$ (1,189 )	\$ 2,317

## DCP MIDSTREAM, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2018 and 2017 - (Continued)

(Unaudited)

	Six Months Ended June 30, 2018			
	Gathering and Processing (millions)	Logistics and Marketing	Eliminations	Total
Sales of natural gas	\$844	\$ 1,016	\$ (772 )	\$1,088
Sales of NGLs and condensate (b)	1,610	3,170	(1,542 )	3,238
Transportation, processing and other	209	30	(1 )	238
Trading and marketing losses, net (c)	(63 )	(45 )	—	(108 )
Total operating revenues	\$2,600	\$ 4,171	\$ (2,315 )	\$4,456

(a) Includes \$1,108 million of revenues from physical sales contracts and buy-sell exchange transactions in our logistics and marketing segment, which are not within the scope of Topic 606.

(b) Includes \$1,901 million of revenues from physical sales contracts and buy-sell exchange transactions in our logistics and marketing segment, which are not within the scope of Topic 606.

(c) Not within the scope of Topic 606.

## 4. Contract Liabilities

We have contracts with customers whereby the customer reimburses us for costs to construct certain connections to our operating assets. These agreements are typically entered into in contemplation with gathering and processing agreements and transportation agreements with customers, and are part of the consideration of the contract. Prior to the adoption of Topic 606, we accounted for these arrangements as a reduction to the cost basis of our long-lived assets which were amortized as a reduction to depreciation expense over the estimated useful life of the related assets. Under Topic 606, we record these payments as deferred revenue which will be amortized into revenue over the expected contract term. The noncurrent portion of deferred revenue is included in other long-term liabilities on our condensed consolidated balance sheet.

The following table summarizes changes in contract liabilities included in our balance sheet:

	June 30, 2018 (millions)
Balance, beginning of period	\$ —
Cumulative effect of implementation of Topic 606	36
Revenue recognized (a)	(1 )
Balance, end of period	\$ 35
Current contract liabilities	—
Long-term contract liabilities	\$ 35

(a) Deferred revenue recognized is included in transportation, processing and other on the condensed consolidated statement of operations.

The contract liabilities disclosed in the table above will be recognized as revenue as the obligations are satisfied over the next 35 years as of June 30, 2018.



DCP MIDSTREAM, LP  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 Three and Six Months Ended June 30, 2018 and 2017 - (Continued)  
 (Unaudited)

5. Agreements and Transactions with Affiliates

DCP Midstream, LLC

Services Agreement and Other General and Administrative Charges

Under the Services and Employee Secondment Agreement (the “Services Agreement”), we are required to reimburse DCP Midstream, LLC for costs, expenses, and expenditures incurred or payments made on our behalf for general and administrative functions including, but not limited to, legal, accounting, compliance, treasury, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, benefit plan maintenance and administration, credit, payroll, internal audit, taxes and engineering, as well as salaries and benefits of seconded employees, insurance coverage and claims, capital expenditures, maintenance and repair costs and taxes. There is no limit on the reimbursements we make to DCP Midstream, LLC under the Services Agreement for costs, expenses and expenditures incurred or payments made on our behalf. The following table summarizes employee related costs that were charged by DCP Midstream, LLC to the Partnership that are included in the condensed consolidated statements of operations:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2017	2018	2017
Employee related costs charged by DCP Midstream, LLC				
Operating and maintenance expense	\$53	\$49	\$102	\$99
General and administrative expense	\$47	\$39	\$85	\$70

Phillips 66 and its Affiliates

We sell a portion of our residue gas and NGLs to Phillips 66 and Chevron Phillips Chemical LLC, or CPChem. CPChem is owned 50% by Phillips 66, and is considered a related party. Approximately 18% of our NGL production was committed to Phillips 66 and CPChem as of June 30, 2018. The primary production commitment on certain contracts began a ratable wind down period in December 2014 which expires in January 2019. We anticipate continuing to purchase and sell commodities with Phillips 66 and CPChem in the ordinary course of business.

Enbridge and its Affiliates

We sell NGLs to and purchase NGLs from Enbridge and its affiliates. We anticipate continuing to sell commodities to and purchase commodities from Enbridge and its affiliates in the ordinary course of business.

Unconsolidated Affiliates

We sell a portion of our residue gas and NGLs to, purchase natural gas and other NGL products from, and provide gathering and transportation services to other unconsolidated affiliates. We anticipate continuing to purchase and sell commodities and provide services to unconsolidated affiliates in the ordinary course of business.

DCP MIDSTREAM, LP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Three and Six Months Ended June 30, 2018 and 2017 - (Continued)  
(Unaudited)

Summary of Transactions with Affiliates

The following table summarizes our transactions with affiliates:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	2018	2017	2018	2017
	(millions)			
Phillips 66 (including its affiliates):				
Sales of natural gas, NGLs and condensate to affiliates	\$381	\$251	\$683	\$525
Purchases and related costs from affiliates	\$28	\$8	\$38	\$15
Operating and maintenance and general administrative expenses	\$3	\$—	\$6	\$1
Enbridge (including its affiliates):				
Sales of natural gas, NGLs and condensate to affiliates	\$13	\$15	\$25	\$20
Purchases and related costs from affiliates	\$18	\$11	\$28	\$19
Operating and maintenance and general administrative expenses	\$—	\$—	\$—	\$1
Unconsolidated affiliates:				
Sales of natural gas, NGLs and condensate to affiliates	\$14	\$12	\$25	\$22
Transportation, processing, and other to affiliates	\$2	\$2	\$3	\$3
Purchases and related costs from affiliates	\$179	\$119	\$324	\$232

We had balances with affiliates as follows:

	June 30, 2018	December 31, 2017
	(millions)	
Phillips 66 (including its affiliates):		
Accounts receivable	\$153	\$156
Accounts payable	\$24	\$6
Other assets	\$1	\$—
Enbridge (including its affiliates):		
Accounts receivable	\$14	\$11
Accounts payable	\$21	\$9
Unconsolidated affiliates:		
Accounts receivable	\$22	\$24
Accounts payable	\$67	\$53
Other assets	\$3	\$4

6. Inventories

Inventories were as follows:

	June 30, 2018	December 31, 2017
	(millions)	
Natural gas	\$18	\$30
NGLs	29	38
Total inventories	\$47	\$68

We recognize lower of cost or market adjustments when the carrying value of our inventories exceeds their estimated market value. These non-cash charges are a component of purchases and related costs in the condensed consolidated statements of operations. We recognized no lower of cost or net realizable value adjustments during the three and six months ended June 30, 2018 and June 30, 2017, respectively.

#### 7. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

	Depreciable Life	June 30, 2018	December 31, 2017
		(millions)	
Gathering and transmission systems	20 — 50 Years	\$8,599	\$ 8,473
Processing, storage and terminal facilities	35 — 60 Years	5,141	5,128
Other	3 — 30 Years	563	557
Construction work in progress		520	374
Property, plant and equipment		14,823	14,532
Accumulated depreciation		(5,743 )	(5,549 )
Property, plant and equipment, net		\$9,080	\$ 8,983

Interest capitalized on construction projects was \$6 million and \$1 million for the three months ended June 30, 2018 and 2017, respectively, and \$11 million and \$2 million for the six months ended June 30, 2018 and 2017, respectively. Depreciation expense was \$94 million and \$90 million for the three months ended June 30, 2018 and 2017, respectively, and \$186 million and \$182 million for the six months ended June 30, 2018 and 2017, respectively.

## DCP MIDSTREAM, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2018 and 2017 - (Continued)

(Unaudited)

## 8. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

		Carrying Value as	
		of	
	Percentage	June	December
	Ownership	30,	31,
		2018	2017
		(millions)	
DCP Sand Hills Pipeline, LLC	66.67%	\$1,730	\$ 1,633
DCP Southern Hills Pipeline, LLC	66.67%	735	739
Discovery Producer Services LLC	40.00%	354	362
Front Range Pipeline LLC	33.33%	163	165
Texas Express Pipeline LLC	10.00%	91	90
Gulf Coast Express Pipeline LLC	25.00%	28	—
Mont Belvieu Enterprise Fractionator	12.50%	25	23
Panola Pipeline Company, LLC	15.00%	23	24
Mont Belvieu 1 Fractionator	20.00%	12	10
Other	Various	4	