DCP Midstream Partners, LP
Form 10-Q
August 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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 PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware	03-0567133
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
370 17th Street, Suite 2500 Denver, Colorado	80202
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (303) 595-3331

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. Yesý 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 ý No ¨

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 29, 2016, there were outstanding 114,742,948 common units representing limited partner interests.

DCP MIDSTREAM PARTNERS, LP
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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,” “es “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, 2015, 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;
- our ability to hire, train, and retain qualified personnel and key management to execute our business strategy;
- general economic, market and business conditions;
- our ability to continue the safe and reliable operation of our assets;
- 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 loan agreements and the indentures governing our debt securities, as well as our ability to maintain our credit ratings;
- new, additions to, and changes in, laws and regulations, particularly with regard to taxes, safety 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;
- 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 and changes in competition.
- our ability to grow through organic growth projects, contributions from affiliates, or acquisitions, and the successful integration and future performance of such 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;
- 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 breaches, against, or otherwise impacting, our facilities and systems;
- our ability to purchase propane from our suppliers and make associated profitable sales transactions for our wholesale propane logistics business;
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- 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 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 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.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

DCP MIDSTREAM PARTNERS, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1	$ 2
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $1 million	53	73
Affiliates	86	81
Inventories	29	43
Unrealized gains on derivative instruments	29	105
Assets held for sale	118	—
Other	3	2
Total current assets	319	306
Property, plant and equipment, net	3,302	3,476
Goodwill	72	72
Intangible assets, net	108	112
Investments in unconsolidated affiliates	1,481	1,493
Unrealized gains on derivative instruments	5	9
Other long-term assets	15	9
Total assets	$5,302	$ 5,477
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$83	$ 98
Affiliates	19	19
Unrealized losses on derivative instruments	20	18
Accrued interest	19	19
Accrued taxes	23	12
Liabilities held for sale	3	—
Other	45	34
Total current liabilities	212	200
Long-term debt	2,367	2,424
Unrealized losses on derivative instruments	—	1
Other long-term liabilities	45	47
Total liabilities	2,624	2,672
Commitments and contingent liabilities		
Equity:		
Limited partners (114,742,948 and 114,742,948 common units issued and outstanding, respectively)	2,637	2,762
General partner	18	18
Accumulated other comprehensive loss	(8)	(8)
Total partners' equity	2,647	2,772

Noncontrolling interests	31	33
Total equity	2,678	2,805
Total liabilities and equity	$5,302	$ 5,477

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Millions, except per unit amounts)			
Operating revenues:				
Sales of natural gas, propane, NGLs and condensate	$73	$108	$178	$297
Sales of natural gas, propane, NGLs and condensate to affiliates	191	244	353	525
Transportation, processing and other	62	59	123	115
Transportation, processing and other to affiliates	42	25	84	48
Losses from commodity derivative activity, net	(8)	(5)	(4)	—
(Losses) gains from commodity derivative activity, net — affiliates	(12)	(1)	(7)	13
Total operating revenues	348	430	727	998
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	210	277	418	644
Purchases of natural gas, propane and NGLs from affiliates	21	29	44	64
Operating and maintenance expense	45	51	93	98
Depreciation and amortization expense	30	29	62	58
General and administrative expense	3	3	5	6
General and administrative expense — affiliates	18	19	37	37
Goodwill impairment	—	49	—	49
Other expense, net	3	1	3	1
Total operating costs and expenses	330	458	662	957
Operating income (loss)	18	(28)	65	41
Interest expense	(24)	(22)	(48)	(44)
Earnings from unconsolidated affiliates	53	44	102	67
Income (loss) before income taxes	47	(6)	119	64
Income tax (expense) benefit	(1)	4	(1)	3
Net income (loss)	46	(2)	118	67
Net income attributable to noncontrolling interests	(1)	—	(1)	—
Net income (loss) attributable to partners	45	(2)	117	67
General partner’s interest in net income	(31)	(31)	(62)	(62)
Net income (loss) allocable to limited partners	$14	$(33)	$55	$5
Net income (loss) per limited partner unit — basic and diluted	$0.12	$(0.29)	$0.48	$0.04
Weighted-average limited partner units outstanding — basic and diluted	114.7	114.7	114.7	114.5

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Millions)			
Net income (loss)	$46	$(2)	$118	$67
Other comprehensive income:				
Reclassification of cash flow hedge losses into earnings	—	—	—	1
Total other comprehensive income	—	—	—	1
Total comprehensive income (loss)	46	(2)	118	68
Total comprehensive income attributable to noncontrolling interests	(1)	—	(1)	—
Total comprehensive income (loss) attributable to partners	$45	$(2)	$117	$68

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
	(Millions)	
OPERATING ACTIVITIES:		
Net income	$118	$67
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	62	58
Earnings from unconsolidated affiliates	(102)	(67)
Distributions from unconsolidated affiliates	127	87
Net unrealized losses on derivative instruments	82	98
Goodwill impairment	—	49
Other, net	7	2
Change in operating assets and liabilities, which provided (used) cash, net of effects of acquisitions:		
Accounts receivable	13	102
Inventories	12	24
Accounts payable	(12)	(86)
Other current assets and liabilities	13	12
Other long-term assets and liabilities	—	4
Net cash provided by operating activities	320	350
INVESTING ACTIVITIES:		
Capital expenditures	(17)	(194)
Investments in unconsolidated affiliates, net	(16)	(46)
Deposit from assets held for sale	16	—
Net cash used in investing activities	(17)	(240)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,052	450
Payments of long-term debt	(1,111)	(350)
Proceeds from issuance of common units, net of offering costs	—	31
Distributions to limited partners and general partner	(242)	(241)
Distributions to noncontrolling interests	(3)	(2)
Contributions from DCP Midstream, LLC	—	1
Net cash used in financing activities	(304)	(111)
Net change in cash and cash equivalents	(1)	(1)
Cash and cash equivalents, beginning of period	2	25
Cash and cash equivalents, end of period	$1	$24

See accompanying notes to condensed consolidated financial statements.

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

	Partners' Equity				
	Limited Partners	General Partner	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	(Millions)				
Balance, January 1, 2016	$2,762	$ 18	$ (8)	$ 33	$2,805
Net income	55	62	—	1	118
Distributions to limited partners and general partner	(180)	(62)	—	—	(242)
Distributions to noncontrolling interests	—	—	—	(3)	(3)
Balance, June 30, 2016	$2,637	$ 18	$ (8)	$ 31	$2,678

See accompanying notes to condensed consolidated financial statements.

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

	Partners' Equity				
	Limited Partners	General Partner	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	(Millions)				
Balance, January 1, 2015	$2,984	$ 18	$ (9)	$ 33	$3,026
Net income	5	62	—	—	67
Other comprehensive income	—	—	1	—	1
Issuance of 788,033 common units to the public	31	—	—	—	31
Distributions to limited partners and general partner	(179)	(62)	—	—	(241)
Distributions to noncontrolling interests	—	—	—	(2)	(2)
Contributions from DCP Midstream, LLC	1	—	—	—	1
Balance, June 30, 2015	$2,842	$ 18	$ (8)	$ 31	$2,883

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2016 and 2015
(Unaudited)

1. Description of Business and Basis of Presentation
DCP Midstream Partners, LP, with its consolidated subsidiaries, or us, we, our or the Partnership, is engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas; producing, fractionating, transporting, storing and selling NGLs and recovering and selling condensate; and transporting, storing and selling propane in wholesale markets.
We are a Delaware limited partnership that was formed in August 2005. Our partnership includes our Natural Gas Services, NGL Logistics and Wholesale Propane Logistics segments. For additional information regarding these segments, see Note 14 - 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 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 Spectra Energy Corp and its affiliates, or Spectra Energy. DCP Midstream, LLC directs our business operations through its ownership and control of the General Partner. DCP Midstream, LLC’s employees provide administrative support to us and operate most of our assets. DCP Midstream, LLC owns approximately 21.4% 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. Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and notes. Although these estimates are based on management’s best available knowledge of current and expected future events, actual results could differ from those estimates. All intercompany balances and transactions have been eliminated in consolidation. Transactions between us and other DCP Midstream, LLC operations have been included in the condensed consolidated financial statements as transactions between affiliates.
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 Securities and Exchange Commission, or the 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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 2015 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

2. New Accounting Pronouncements

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or 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.

DCP MIDSTREAM PARTNERS, LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2016 and 2015 - (Continued)
(Unaudited)

FASB ASU, 2015-16 “Business Combinations (Topic 805),” or ASU 2015-16 - In September 2015, the FASB issued ASU 2015-16, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This ASU is effective for interim and annual reporting periods beginning after December 15, 2016, with the option to early adopt for financial statements that have not been issued. The impact of this ASU will be evaluated upon the occurrence of future business combinations.

FASB ASU 2015-02 “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” or ASU 2015-02 - In February 2015, the FASB issued ASU 2015-02, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This ASU is effective for annual reporting periods beginning after December 15, 2015. The adoption of this ASU has been implemented and did not have a material impact on our condensed consolidated results of operations, cash flows and financial position.

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.” This ASU is effective for annual reporting periods beginning after December 15, 2017, with the option to adopt as early as December 15, 2016. We are currently assessing the impact of adoption of this ASU on our condensed consolidated results of operations, cash flows and financial position.

3. Assets Held for Sale

In May 2016, we entered into a purchase and sale agreement with a third party to sell our 100% interest in our Northern Louisiana system, which primarily consisted of certain gas processing plants and gathering systems, within our Natural Gas Services segment, for approximately $160 million. This transaction closed on July 1, 2016 and we expect to record a gain of approximately $45 million in the third quarter of 2016, subject to customary purchase price adjustments.

The transaction had not closed as of June 30, 2016, and we continued to classify the underlying assets and liabilities as held for sale. As a result, the associated assets and liabilities of the Northern Louisiana system were reclassified to current assets and current liabilities, respectively, in the condensed consolidated balance sheet as of June 30, 2016.

The following table summarizes the classes of assets and liabilities designated as held for sale in the condensed consolidated balance sheet as of June 30, 2016:

	June 30, 2016 (millions)
Assets held for sale:	
Property, plant and equipment, net	$ 116
Inventories	2
Total reclassified to current assets	$ 118
Liabilities held for sale:	
Other long-term liabilities	$ 3
Total reclassified to current liabilities	$ 3

4. Agreements and Transactions with Affiliates

DCP Midstream, LLC

Services Agreement and Other General and Administrative Charges

We have entered into a services agreement, as amended, or the Services Agreement, with DCP Midstream, LLC. Under the Services Agreement, we are required to reimburse DCP Midstream, LLC for salaries of operating personnel and employee benefits, as well as capital expenditures, maintenance and repair costs, taxes and other direct costs incurred by DCP Midstream, LLC on our behalf. We also pay DCP Midstream, LLC an annual fee under the Services Agreement for centralized corporate functions performed by DCP Midstream, LLC on our behalf, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human

DCP MIDSTREAM PARTNERS, LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2016 and 2015 - (Continued)
(Unaudited)

resources, credit, payroll, taxes and engineering. Except with respect to the annual fee, there is no limit on the reimbursements we make to DCP Midstream, LLC under the Services Agreement for other expenses and expenditures incurred or payments made on our behalf. In the event we acquire assets or our business otherwise expands, the annual fee under the Services Agreement is subject to adjustment based on the nature and extent of general and administrative services performed by DCP Midstream, LLC, as well as an annual adjustment based on changes to the Consumer Price Index. Effective January 1, 2015, the annual fee payable under the Services Agreement is $71 million.

The following is a summary of the fees we incurred under the Services Agreement, as well as other fees paid to DCP Midstream, LLC:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Millions)			
Services Agreement	$18	$ 18	$36	$ 36
Other fees — DCP Midstream, LLC	—	1	1	1
Total — DCP Midstream, LLC	$18	$ 19	$37	$ 37

In addition to the fees paid pursuant to the Services Agreement, we incurred allocated expenses, including executive compensation, insurance and internal audit fees with DCP Midstream, LLC of less than $1 million and $1 million for the three months ended June 30, 2016 and 2015 respectively and $1 million for each of the six months ended June 30, 2016, and 2015, respectively.

Commodity Transactions - We sell a portion of our residue gas and NGLs to, purchase natural gas and other NGL products from, and provide gathering, transportation and other services to, DCP Midstream, LLC. Management anticipates continuing to purchase and sell commodities and provide services to DCP Mid