DCP Midstream, LP
Form 10-K
February 15, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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, 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
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act of 1934, or the Act. YesýNo¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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. YesýNo¨
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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. (Check one):

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

The aggregate market value of common units held by non-affiliates of the registrant on June 30, 2016, was approximately $3,121,014,000. The aggregate market value was computed by reference to the last sale price of the registrant’s common units on the New York Stock Exchange on June 30, 2016.

As of February 3, 2017, there were 143,302,328 common units representing limited partner interests outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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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 Annual Report on Form 10-K, 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 grow through organic growth projects, or acquisitions, and the successful integration and future performance of such 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 credit agreement and the indentures governing our notes, 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 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;
- 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.

PART I

This filing includes information for the registrant both prior to the consummation of the Transaction described below and subsequent to the consummation of the Transaction. As further described below, following completion of the Transaction on January 1, 2017, the name of the registrant was changed from DCP Midstream Partners, LP to DCP Midstream, LP on January 11, 2017 (the “Name Change”). Unless the context clearly indicates otherwise, references in this report to “we”, “our”, “us” the “registrant”or the “partnership” refers to DCP Midstream, LP and its consolidated subsidiar (i) before the consummation of the Transaction with respect to historical information including, but not limited to, operating data, operating segments, and results of operations and (ii) after the consummation of the Transaction with respect to current and forward-looking information.

Item 1. Business

OUR PARTNERSHIP

We are 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. We are currently 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. 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. During the third quarter of 2016, Spectra Energy entered into an Agreement and Plan of Merger (the "Merger Agreement") with Enbridge Inc. ("Enbridge"), a Canadian corporation, and anticipates completing the proposed merger during the first quarter of 2017. The Merger Agreement provides that, upon closing of the proposed merger, Spectra Energy will continue its separate corporate existence as a wholly owned subsidiary of Enbridge.

On December 30, 2016, the partnership entered into a Contribution Agreement with DCP Midstream, LLC and DCP Midstream Operating, LP (the “Operating Partnership”), a wholly owned subsidiary of the partnership. On January 1, 2017, DCP Midstream, LLC contributed to us: (i) its ownership interests in all of its subsidiaries owning operating assets, and (ii) $424 million of cash (together the “Contributions”). In consideration of the partnership’s receipt of the Contributions, (i) the partnership issued 28,552,480 common units to DCP Midstream, LLC and 2,550,644 general partner units to DCP Midstream GP, LP, the General Partner in a private placement and (ii) the Operating Partnership assumed $3,150 million of DCP Midstream, LLC’s debt. The transactions and documents contemplated by the Contribution Agreement are collectively referred to as the “Transaction”.

OVERVIEW, STRATEGIES AND COMPETITIVE STRENGTHS

This section reflects our business strategies following the Transaction

Our Business

Following the Transaction, we became one of the largest gatherers of natural gas, based on wellhead volumes, in the United States, and became the largest producer and marketer of NGLs in the United States. In 2016, we gathered, processed and transported an average of approximately 6.5 trillion Btus per day of natural gas and produced an average of approximately 393,000 barrels per day of NGLs. Our primary operations consist of:

- gathering, compressing, treating, processing natural gas and producing and fractionating NGLs; and
- logistics and marketing, from which we generate revenues primarily by trading, transporting, storing and marketing natural gas and NGLs, fractionating NGLs, and recovering and selling condensate.

The diagram below depicts our organizational structure as of January 1, 2017 following the Transaction.

We operate in 17 states in the United States. Our gathering systems and processing plants are connected to several interstate and intrastate natural gas pipelines. We also operate various NGL pipeline systems, one NGL and one natural gas storage facility. Following the consummation of the Transaction, our gathering systems consisted of approximately 64,000 miles of gathering and transmission pipeline owned or operated by us. We receive natural gas from a diverse group of producers under contracts with varying durations, and we receive fees or commodities from the producers to transport the natural gas from the wellhead to the processing plant.

Following the consummation of the Transaction, we own or operate 61 natural gas processing plants. We also own an interest in one additional plant through our 40% equity interest in Discovery Producer Services, LLC. At some of these facilities, we fractionate NGLs into individual components (ethane, propane, butane and natural gasoline). We receive fees or commodities as payment for our natural gas processing services, depending on the types of contracts we enter into with each supplier.

We purchase or take custody of substantially all of our natural gas from producers, principally under three types of processing contracts: fee-based contracts; percent-of-proceeds/index contracts; and keep-whole and wellhead purchase arrangements.

Based on our contracts, we have a long position in NGLs, natural gas and condensate and are sensitive to changes in commodity prices. Our operations of gathering, processing, compressing, transporting and storing natural gas, and the related operations of fractionating, transporting, storing and marketing of NGLs, create commodity price risk due to market fluctuations in commodity prices, primarily with respect to the prices of NGLs, natural gas and crude oil. You should read Item 1A. Risk Factors for risks associated with our business. Our business is dependent upon commodity prices and market demand for crude oil, natural gas and NGLs, which are beyond our control and have been, and may continue to be, volatile.

Our strategies for managing this commodity exposure and the related earnings and cash flow volatility include the following:

- A significant portion of our income is generated from fee-based contracts.
- We have negotiated terms in our percent-of-proceeds and keep-whole contracts that provide us with downside protection. These terms include volume tiers, pricing floors and provisions that reduce the likelihood that we would be required to operate at an economic loss.
- We have a hedging program where we enter into derivative financial instruments to mitigate a portion of the risk of weakened natural gas, NGL and condensate prices associated with our gathering, processing and sales activities, thereby stabilizing our cash flows. The commodity derivative instruments used for our hedging program are a combination of direct NGL product, crude oil, and natural gas hedges.

We sell NGLs to a variety of customers ranging from large, multi-national petrochemical and refining companies to small regional retail propane distributors. Substantially all of our NGL sales are made at market-based prices, including approximately 27% of our NGL production which was committed to Phillips 66 and Chevron Phillips Chemical, or CPChem as of December 31, 2016, the primary production commitment of which began a ratable wind down period in December 2014 and expires in January 2019. We anticipate continuing to purchase and sell commodities with Phillips 66 and CPChem in the ordinary course of business.

We sell the residual natural gas (primarily methane) that results from processing natural gas, to marketers and end-users at market-based prices. End-users include large industrial companies, natural gas distribution companies and electric utilities. We market residue gas and NGLs through our wholly-owned marketing company. We also have storage capacity for residue gas of approximately 12 Bcf at our Spindletop natural gas storage facility.

Our Business Strategy

Our primary business objectives are to achieve sustained company profitability, a strong balance sheet and profitable growth thereby sustaining our cash distribution per unit. We intend to accomplish these objectives by prudently executing the following business strategies:

Improve Operational Performance. We believe our operating efficiency and reliability enhance our ability to attract new natural gas supplies by enabling us to offer more competitive terms, services and service flexibility to producers. We believe we have a complementary base of assets from which to further extract operating efficiencies, while continuing to provide superior customer service.

Contract Realignment. Through our contract realignment initiatives, we have grown our fee-based asset base. Under these fee-based arrangements, we receive a fee or fees for one or more of the following services: gathering, compressing, treating, processing, transporting or storing natural gas and fractionating, storing and transporting NGLs. The revenues we earn are directly related to the volume of natural gas or NGLs that flows through our systems and are not directly dependent on

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commodity prices. However, to the extent a sustained decline in commodity prices results in a decline in volumes, our revenues from these arrangements would be reduced.

Targeted Growth. We intend to use our strategic asset base in the United States and our position as one of the largest gatherers of natural gas, and as the largest producer and marketer of NGLs in the United States, as a platform for future growth. We plan to grow our business by constructing new gathering lines, processing facilities and NGL pipeline infrastructure, and expanding existing infrastructure.

Pursue strategic third party acquisitions. We pursue economically attractive and strategic acquisition opportunities within the midstream energy industry, both in new and existing lines of business, and geographic areas of operation.

Our Competitive Strengths

We believe that we are well positioned to execute our business strategies and achieve one of our primary business objectives of sustaining our cash distribution per unit because of the following competitive strengths:

Strategically Located Gas Gathering and Processing Operations. Our assets are strategically located in areas with the potential for increasing our volume throughput and cash flow generation. We have operations in some of the largest natural gas producing regions in the United States: Permian Basin, Rocky Mountains, Midcontinent, Gulf Coast, East Texas, South Texas, Central Texas, and Antrim Shale. In addition, we operate one of the largest portfolios of natural gas processing plants in the United States. We provide an integrated package of logistics and marketing services to natural gas producers. We believe our ability to provide all of these services gives us an advantage in competing for new supplies of natural gas because we can provide substantially all services that producers, marketers and others require to move natural gas and NGLs from wellhead to market on a cost-effective basis. Our gathering systems and processing plants are connected to several natural gas pipeline systems.

Integrated Logistics and Marketing Operations. We have connected our gathering and processing operations with more than 4,600 miles of NGL pipelines. This infrastructure offers our customers a competitive, integrated midstream service. We have strategically located NGL transportation pipelines in the Midcontinent, Rocky Mountains, East Texas, Gulf Coast, South Texas, Central Texas, and Permian Basin which are major NGL producing regions, NGL fractionation facilities in the Gulf Coast and an NGL storage facility in Michigan. Our NGL pipelines connect to various natural gas processing plants and transport the NGLs to large fractionation facilities, a petrochemical plant, a third party underground NGL storage facility and other markets along the Gulf Coast. Our NGL storage facility in Michigan is strategically adjacent to the Sarnia, Canada refinery and petrochemical corridor. We believe the strategic location of our assets coupled with their geographic diversity and our reputation for running our business reliably and effectively, presents us with continuing opportunities to provide competitive services to our customers and attract new natural gas production.

Stable cash flows. Our operations consist of a mix of fee-based and commodity-based services, which together with our commodity hedging program, are intended to generate relatively stable cash flows. Growth in our fee-based earnings will reduce the impact of unhedged margins and allow us to continue to generate relatively stable cash flows. Additionally, while certain of our gathering and processing contracts subject us to commodity price risk, we have mitigated a portion of our currently anticipated commodity price risk associated with the equity volumes from our gathering and processing operations with fixed price commodity swaps, settling through the first quarter of 2018.

Established Relationships with Oil, Natural Gas and Petrochemical Companies. We have long-term relationships with many of our suppliers and customers, and we expect that we will continue to benefit from these relationships.

Experienced Management Team. Our senior management team and board of directors have extensive experience in the midstream industry. We believe our management team has a proven track record of enhancing value through organic growth and the acquisition, optimization and integration of midstream assets.

Affiliation with DCP Midstream, LLC and its owners. Our relationship with DCP Midstream, LLC and its owners, Phillips 66 and Spectra Energy, should continue to provide us with significant business opportunities. Through our relationship with DCP Midstream, LLC and its owners, we believe our strong commercial relationships throughout the energy industry, including with major producers of natural gas and NGLs in the United States, will help facilitate the implementation of our strategies.

DCP Midstream, LLC has a significant interest in us through its ownership of an approximately 2% general partner interest, a 36% limited partner interest and all of our incentive distribution rights.

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Midstream Natural Gas Industry Overview (Natural Gas Services and Logistics and Marketing)

General

The midstream natural gas industry is the link between exploration and production of natural gas and the delivery of its components to end-use markets, and consists of the gathering, compressing, treating, processing, transporting, storing and selling of natural gas, and producing, fractionating, transporting, storing and selling NGLs.

Once natural gas is produced from wells, producers then seek to deliver the natural gas and its components to end-use markets. The following diagram illustrates the natural gas gathering, processing, fractionation, storage and transportation process, which ultimately results in natural gas and its components being delivered to end-users.

Natural Gas Gathering

The natural gas gathering process begins with the drilling of wells into gas-bearing rock formations. Once the well is completed, the well is connected to a gathering system. Onshore gathering systems generally consist of a network of small diameter pipelines that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission.

Natural Gas Compression

Gathering systems are generally operated at design pressures that will maximize the total throughput from all connected wells. Since wells produce at progressively lower field pressures as they deplete, it becomes increasingly difficult to deliver the remaining lower pressure production from the well against the prevailing gathering system pressures. Natural gas compression is a mechanical process in which a volume of wellhead gas is compressed to a desired higher pressure, allowing gas to flow into a higher pressure downstream pipeline to be brought to market. Field compression is typically used to lower the pressure of a gathering system or to provide sufficient pressure to deliver gas into a higher pressure downstream pipeline. If field compression is not installed, then the remaining natural gas in the ground will not be produced because it cannot overcome the higher gathering system pressure. In contrast, if field compression is installed, then a well can continue delivering production that otherwise would not be produced.

Natural Gas Processing

The principal component of natural gas is methane, but most natural gas produced at the wellhead also contains varying amounts of NGLs including ethane, propane, normal butane, isobutane and natural gasoline. NGLs have economic value and are utilized as a feedstock in the petrochemical and oil refining industries or directly as heating, engine or industrial fuels. Long-haul natural gas pipelines have residue natural gas specifications as to the maximum NGL content of the gas to be shipped. In order to meet quality standards for long-haul pipeline transportation, natural gas collected at the wellhead through a gathering system may need to be processed to separate hydrocarbon liquids from the natural gas that may have higher values as NGLs. NGLs are typically recovered by cooling the natural gas until the NGLs become separated through condensation. Cryogenic recovery methods are processes where this is accomplished at temperatures lower than negative 150°F. These methods provide higher NGL recovery yields.

In addition to NGLs, natural gas collected at the wellhead through a gathering system may also contain impurities, such as water, sulfur compounds, nitrogen or helium, which must also be removed to meet the quality standards for long-haul pipeline transportation. As a result, gathering systems and natural gas processing plants will typically provide ancillary services prior to processing such as dehydration, treating to remove impurities and condensate separation. Dehydration removes water from the natural gas stream, which can form ice when combined with natural gas and cause corrosion when combined with carbon dioxide or hydrogen sulfide. Natural gas with a carbon dioxide or hydrogen sulfide content higher than permitted by pipeline quality standards requires treatment with chemicals called amines at a separate treatment plant prior to processing. Condensate separation involves the removal of liquefied hydrocarbons from the natural gas stream. Once the condensate has been removed, it may be stabilized for transportation away from the processing plant via truck, rail, or pipeline.

Natural Gas and NGL Transportation and Storage

After gas collected through a gathering system is processed to meet quality standards required for transportation and NGLs have been extracted from natural gas, the residue natural gas is shipped on long-haul pipelines or injected into storage facilities. The NGLs are typically transported via NGL pipelines or trucks to a fractionator for separation of the NGLs into their individual components. Natural gas and NGLs may be held in storage facilities to meet future seasonal and customer demands. Storage facilities can include marine, pipeline and rail terminals, and underground facilities consisting of salt caverns and aquifers used for storage of natural gas and various liquefied petroleum gas products including propane, mixed butane, and normal butane. Rail, truck and pipeline connections provide varying ways of transporting natural gas and NGLs to and from storage facilities.

Natural Gas Asset Based Trading and Marketing

Natural gas storage and pipeline assets are exposed to certain risks including changes in commodity prices. Commodity price risk related to gas storage and pipeline assets can be managed through commodity derivative hedging programs. The commercial activities related to gas storage and pipeline assets primarily consist of the purchase and sale of natural gas and associated time spreads and basis spreads. A time spread transaction is executed by establishing a long gas position at one point in time and establishing an equal short gas position at a different point in time. Time spread transactions allow a locked in margin supported by the injection, withdrawal, and storage capacity of natural gas storage assets. Basis spread transactions are executed to mitigate the risk of sale and purchase price differentials across a system. A basis spread transaction allows a locked in margin on physical purchases and sales of gas, including injections and withdrawals from storage. Swaps may be used to execute these transactions.

NGL Trading

NGL trading activity includes trading energy related products and services through the use of fixed forward sales and purchases, basis and spread trades, storage opportunities, put/call options, term contracts and spot market trading. These energy trading operations are exposed to market variables and commodity price risk with respect to these products and services, and these operations may enter into physical contracts and financial instruments with the objective of realizing a positive margin from the purchase and sale of commodity-based instruments.

Wholesale Propane Logistics

Wholesale propane logistics covers the receipt of propane from processing plants, fractionation facilities and crude oil refineries, the transportation of that propane by pipeline, rail or ship to terminals and storage facilities, the storage of propane
and the delivery of propane to distributors. Propane is extracted from the natural gas stream at processing plants, separated from NGLs at fractionation facilities or separated from crude oil during the refining process. Propane demand is typically highest in

suburban and rural areas where natural gas is not readily available, such as the Northeastern United States. Propane demand is typically highest in the winter heating season months of October through April.

OUR OPERATING SEGMENTS

The following sections reflect our Natural Gas Services, NGL Logistics and Wholesale Propane Logistics business segments prior to the Transaction and are intended to provide operating context for the financial results for the year ended December 31, 2016 provided elsewhere in this Annual Report.

Our operations are organized into three business segments: Natural Gas Services, NGL Logistics and Wholesale Propane Logistics. A map representing the geographic location and type of our assets for each of these segments is set forth below. Additional maps detailing the individual assets can be found on our website at www.dcpmidstream.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this report.

Natural Gas Services Segment

General

Our Natural Gas Services segment consists of a geographically diverse complement of assets and ownership interests that provide a varied array of wellhead to market services for our producer customers. These services include gathering, compressing, treating, processing, transporting and storing natural gas, and fractionating NGLs. These assets are positioned in certain areas with active drilling programs and opportunities for organic growth. Our Natural Gas Services segment owns or operates assets in seven states in the continental United States: Arkansas, Colorado, Louisiana, Michigan, Oklahoma, Texas and Wyoming. The assets in these states include our Eagle Ford system, our East Texas system, our DJ Basin system, our 40% limited liability company interest in the Discovery system located offshore and onshore in Southern Louisiana, our Southeast Texas system, our Michigan system, our Southern Oklahoma system, our Wyoming system, and our 75% operating interest in the Piceance system. This geographic diversity helps to mitigate our natural gas supply risk in that we are not tied to one natural gas resource type or producing area. We believe our current geographic mix of assets will be an important factor for maintaining overall volumes and cash flow for this segment.

During 2016, the volume throughput on our assets was in excess of 2.4 Bcf/d, originating from a diversified mix of customers. Our systems each have significant customer acreage dedications that will continue to provide opportunities for growth as those customers execute their drilling plans over time. Our gathering systems also attract new natural gas volumes through numerous smaller acreage dedications and also by contracting with undedicated producers who are operating in or around our gathering footprint. During 2016, the combined NGL production from our processing facilities was approximately 155,000 Bbls/d and was delivered and sold into various NGL takeaway pipelines or transported by truck.

Our natural gas systems have the ability to deliver gas into numerous downstream transportation pipelines and markets. Many of our outlets transport gas to premium markets in the eastern United States, further enhancing the competitiveness of our commercial efforts in and around our natural gas gathering systems.

Gathering and Transmission Systems, Plants, Fractionators and Storage Facilities

The following is operating data for our systems prior to the Transaction:

2016 Operating Data

System	Ownership Interest	Plants	Approximate Gas Gathering and Transmission Systems (Miles)	Fractionators	Approximate Net Nameplate Plant Capacity (MMcf/d) (a)	Approximate Natural Gas Storage Capacity (Bcf)	Natural Gas Throughput (MMcf/d) (a)	NGL Production (Bbls/d) (a)
Eagle Ford	100%	7(c)	5,490	3	1,175	—	753	65,680
East Texas	100%	3(c)	840	1	860	—	468	22,824
DJ Basin	100%	3(c)	—	—	395	—	395	47,162
Discovery (b)	40%	1(c)	560	1	240	—	228	7,892
Other	Various	7(c)	2,810	—	888	12	605	11,401
Total		21	9,700	5	3,558	12	2,449	154,959

(a) Represents total capacity or total volumes allocated to our proportionate ownership share for 2016 divided by 365 days.

(b) Represents an asset operated by a third party.

(c) Represents NGL extraction plants and the associated processing capacity.

Our Eagle Ford system is a fully integrated midstream business in Fayette, Goliad, Jackson, Jim Wells, Lavaca, Live Oak and Nueces counties in Texas which includes gathering systems, production from 900,000 acres supported by acreage dedications or throughput commitments under long-term predominantly percent-of-proceeds agreements, cryogenic natural gas processing plants and fractionation facilities.

Our East Texas system located near Carthage, Texas, includes a natural gas processing complex that is connected to its gathering system, as well as third party gathering systems, which gathers, transports, compresses, treats and processes natural gas and NGLs. Our East Texas facility may also fractionate NGLs, which can be marketed at nearby petrochemical facilities.

Our DJ Basin system consists of three gas processing plants in the Denver-Julesburg Basin, or DJ Basin, in Weld County, Colorado. Our DJ Basin system also connects to DCP Midstream, LLC plants and gathering systems and delivers NGLs to the Wattenberg, Front Range and Texas Express pipelines in our NGL Logistics segment. In the first quarter of 2016, we completed construction on our Grand Parkway gathering system.

We have a 40% interest in Discovery Producer Services LLC, or Discovery, with the remaining 60% owned by Williams Partners L.P. The Discovery system is operated by Williams Partners L.P. and offers a full range of wellhead-to-market services to both onshore and offshore natural gas producers. The assets are primarily located in the eastern Gulf of Mexico and Lafourche Parish, Louisiana. The Keathley Canyon Connector extension, is supported by long-term fee-based agreements with the Lucius and Hadrian South owners, as well as the Heidelberg and Hadrian North owners, for natural gas gathering, transportation and processing services for production from those fields. In addition, the pipeline system is in proximity to other high-potential deepwater Gulf of Mexico discoveries and prospects.

The following systems are included in Other:
•Our Southeast Texas system;
•Our Michigan system;
•The Northern Louisiana system which was sold on July 1, 2016, and included in the 2016 operating data through the period of ownership;
•Our Southern Oklahoma system;
•Our Wyoming system; and
•Our 75% interest in our Piceance system.

Natural Gas and NGL Markets

The Eagle Ford system has natural gas residue outlets including interstate and intrastate pipelines. The system delivers NGLs to the Gulf Coast petrochemical markets and to Mont Belvieu through our Sand Hills pipeline, owned approximately one-third each by us, DCP Midstream, LLC and Phillips 66, and other third party NGL pipelines. Our Eagle plant has delivery options into the Trunkline and Transco gas pipeline systems.

The East Texas system delivers gas primarily through its Carthage Hub which delivers residue gas to multiple interstate and intrastate pipelines. Certain of the lighter NGLs, consisting of ethane and propane, are fractionated at the East Texas facility and sold to regional petrochemical purchasers. The remaining NGLs, including butanes and natural gasoline, are purchased by DCP Midstream, LLC and transported to Mont Belvieu for fractionation and sale.

The DJ Basin system delivers to the Conway hub in Bushton, Kansas via our Wattenberg pipeline and to the Mont Belvieu hub in Mont Belvieu, Texas via the Front Range and Texas Express pipelines in our NGL Logistics segment.

The Discovery assets have access to downstream pipelines and markets. The NGLs are fractionated, then delivered downstream to third-party purchasers consisting of a mix of local petrochemical facilities and wholesale distribution companies as well as pipelines that transport product to the storage and distribution center near Napoleonville, Louisiana or other similar product hubs.

Customers and Contracts

The suppliers of natural gas to our Natural Gas Services segment are a broad cross-section of the natural gas producing community. We actively seek new producing customers of natural gas on all of our systems to increase throughput volume and to offset natural declines in the production from connected wells. We obtain new natural gas supplies in our operating areas by contracting for production from new wells, by connecting new wells drilled on dedicated acreage and by obtaining natural gas that has been directly received or released from other gathering systems.

Our contracts with our producing customers in our Natural Gas Services segment are a mix of commodity sensitive percent-of-proceeds and percent-of-liquids contracts and non-commodity sensitive fee-based contracts. Our gross margin generated from percent-of-proceeds contracts is directly related to the price of natural gas, NGLs and condensate and our gross margin generated from percent-of-liquids contracts is directly related to the price of NGLs and condensate. Additionally, these contracts may include fee-based components. Generally, the initial term of these purchase agreements is for three to five years or, in some cases, the life of the lease. As we negotiate new agreements and renegotiate existing agreements, this may result in a change in contract mix period over period. The largest percentage of volume at our Southern Oklahoma and Eagle Ford systems are processed under percent-of-proceeds contracts. The producer contracts at our East Texas and Southeast Texas systems are a combination of percent-of-proceeds and fee-based contracts. The majority of the contracts for our Piceance, DJ Basin and Michigan systems are fee-based. The DJ Basin system has in place a long-term fee-based processing agreement with DCP Midstream, LLC which provides us with a fixed demand charge on a portion of the plants' capacities and a throughput fee on all volumes processed. Our Wyoming system has a combination of percent-of-proceeds and fee-based contracts. Discovery has percent-of-liquids, fee-based and keep-whole contracts.

Discovery’s 100% owned subsidiary, Discovery Gas Transmission, owns the mainline and the Federal Energy Regulatory Commission, or FERC, regulated laterals, which generate revenues through a tariff on file with FERC for several types of service: traditional firm transportation service with reservation fees; firm transportation service on a commodity basis with reserve dedication; and interruptible transportation service. In addition, for any of these general services, Discovery Gas

Transmission has the authority to negotiate a specific rate arrangement with an individual shipper and has several of these arrangements currently in effect.

Competition

The natural gas services business is highly competitive in our markets and includes major integrated oil and gas companies, interstate and intrastate pipelines, and companies that gather, compress, treat, process, transport, store and/or market natural gas. Competition is often the greatest in geographic areas experiencing robust drilling by producers and during periods of high commodity prices for crude oil, natural gas and/or NGLs. Competition is also increased in those geographic areas where our commercial contracts with our customers are shorter term and therefore must be renegotiated on a more frequent basis.

NGL Logistics Segment

General

We own and operate assets for our NGL Logistics business in the states of Colorado, Kansas, Louisiana, Michigan, Oklahoma and Texas, which are major NGL producing regions.

Our NGL pipelines transport NGLs from natural gas processing plants to fractionation facilities, a petrochemical plant and a third party underground NGL storage facility. Our pipelines provide transportation services to customers primarily on a fee basis. Therefore, the results of operations for this business are generally dependent upon the volume of product transported and the level of fees charged to customers. The volumes of NGLs transported on our pipelines are dependent on the level of production of NGLs from processing plants connected to our NGL pipelines. When natural gas prices are high relative to NGL prices, it is less profitable to recover NGLs from natural gas because of the higher value of natural gas compared to the value of NGLs. As a result, we have experienced periods, and will likely experience periods in the future, when higher relative natural gas prices reduce the volume of NGLs produced at plants connected to our NGL pipelines.

Our NGL fractionation facilities in the DJ Basin, in Colorado, and our partially owned facilities in Mont Belvieu, Texas, separate NGLs received from processing plants into their individual components. The fractionation facilities provide services on a fee basis. Therefore, the results of operations for this business are generally dependent upon the volume of NGLs fractionated and the level of fees charged to customers.

Our NGL storage facility is located in Marysville, Michigan with strategic access to the Marcellus, Utica and Canadian NGLs. Our facility serves regional refining and petrochemical demand, and helps to balance the seasonality of propane distribution in the Midwestern and Northeastern United States and in Sarnia, Canada. We provide services to customers primarily on a fee basis. Therefore, the results of operations for this business are generally dependent upon the volume of product injected, stored and withdrawn, and the level of fees charged to customers.

The following is operating data for our NGL Logistics segment prior to the Transaction:

2016 Operating Data

System	Ownership Interest	Approximate System Length (Miles)	Fractionators	Approximate Throughput Capacity (MBbls/d) (a)	Approximate NGL Storage Capacity (MMBbls) (a)	Pipeline Throughput (MBbls/d) (a)	Fractionator Throughput (MBbls/d) (a)
Sand Hills pipeline	33.33%	1,160	—	83	—	79	—
Southern Hills pipeline	33.33%	940	—	58	—	32	—
Texas Express pipeline (b)	10%	595	—	28	—	15	—
Wattenberg pipeline	100%	470	—	22	—	20	—
Front Range pipeline (b)	33.33%	450	—	50	—	34	—
Black Lake pipeline	100%	315	—	80	—	55	—
Panola pipeline (b)	15%	185	—	8	—	8	—
Other pipelines (c)	100%	135	—	62	—	46	—
Mont Belvieu Enterprise fractionator (b)	12.5%	—	1	28	—	—	28
Mont Belvieu 1 fractionator (b)	20%	—	1	32	—	—	21
DJ Basin fractionators	100%	—	2	15	—	—	11
Marysville storage facility	100%	—	—	—	8	—	—
Total		4,250	4	466	8	289	60

(a) Represents total capacity or throughput allocated to our proportionate ownership share for 2016 divided by 365 days.

(b) Represents an asset operated by a third party.

(c) Includes our 100% interest in Seabreeze, Wilbreeze and other NGL pipelines.

NGL Pipelines

DCP Sand Hills Pipeline, LLC, or the Sand Hills pipeline, an interstate NGL pipeline in which we owned a 33.33% interest in 2016, and following the Transaction, we now own a 66.67% interest and operate the pipeline, which is a common carrier pipeline which provides takeaway service from plants in the Permian and the Eagle Ford basins to fractionation facilities along the Texas Gulf Coast and at the Mont Belvieu, Texas market hub.

DCP Southern Hills Pipeline, LLC, or the Southern Hills pipeline, an interstate NGL pipeline in which we owned a 33.33% interest in 2016, and following the Transaction, we now own a 66.67% interest and operate the pipeline, which provides takeaway service from the Midcontinent to fractionation facilities at the Mont Belvieu, Texas market hub.

Texas Express Pipeline LLC, or the Texas Express pipeline, an intrastate NGL pipeline in which we own a 10% interest, originates near Skellytown in Carson County, Texas, and extends to Enterprise Products Partners L.P.'s, or Enterprise, natural gas liquids fractionation and storage complex at Mont Belvieu, Texas. The pipeline also provides access to other third party facilities in the area. Enterprise is the operator of the pipeline.

The Wattenberg interstate NGL pipeline originates in the DJ Basin in Colorado and terminates near the Conway hub in Bushton, Kansas. The pipeline is connected to plants we acquired from DCP Midstream, LLC in the Transaction and our O'Connor plant in the DJ Basin.

Front Range Pipeline LLC, or the Front Range pipeline, an interstate NGL pipeline in which we own a 33.33% interest, is a raw NGL mix pipeline that originates in the DJ Basin and extends to Skellytown, Texas. The Front Range pipeline connects to the O'Connor plant, Lucerne 1 plant and the Lucerne 2 plant, plants owned by DCP Midstream, LLC prior to the Transaction, and third party plants in the DJ Basin. Enterprise is the operator of the pipeline.

The Black Lake interstate NGL pipeline originates in northwestern Louisiana and terminates in Mont Belvieu, Texas. Black Lake receives NGLs from gas processing plants in northwestern Louisiana and southeastern Texas, including multiple third party plants, the Sand Hills pipeline and a third party storage facility. Black Lake delivers the NGLs it receives from these sources to fractionation plants in Mont Belvieu, Texas including our partially owned Enterprise and Mont Belvieu 1 fractionators as well as third party pipelines.

Panola Pipeline Company, LLC, or the Panola pipeline, an intrastate NGL pipeline in which we own a 15% interest, is an approximately 180-mile NGL pipeline system extending from points near Carthage, Texas to Mont Belvieu, Texas. Enterprise is the operator of the pipeline.

NGL Fractionation Facilities

We own a 12.5% interest in the Enterprise fractionator operated by Enterprise and a 20% interest in the Mont Belvieu 1 fractionator operated by ONEOK Partners, both located in Mont Belvieu, Texas.

Our DJ Basin NGL fractionators in Colorado are located on processing plant sites that were owned and operated by DCP Midstream, LLC, prior to the Transaction, which delivers NGLs to the fractionators under a long-term fractionation agreement.

NGL Storage Facility

Our NGL storage facility is located in Marysville, Michigan and includes 11 underground salt caverns with approximately 8 MMBbls of storage capacity and rail, truck and pipeline connections providing an important supply point for refiners, petrochemical plants and wholesale propane distributors in the Sarnia, midwestern and northeastern markets.

Customers and Contracts

Our contracts with our customers in our NGL Logistics segment are primarily fee-based contracts.

In 2016, the Southern Hills, Sand Hills, Texas Express, and Front Range pipelines had long-term, fee-based, ship-or-pay transportation agreements in place with affiliates of DCP Midstream, LLC as well as third party shippers. These NGL pipelines collect fee-based transportation revenue under regulated tariffs.

The Wattenberg pipeline is an open access pipeline with access to numerous gas processing facilities in the DJ Basin. Prior to the Transaction, the Wattenberg pipeline was supported by a long-term dedication and transportation agreement with a subsidiary of DCP Midstream, LLC whereby certain NGL volumes produced at several of DCP Midstream, LLC’s processing facilities were dedicated for transportation on the Wattenberg pipeline. We collect fee-based transportation revenue under our tariff.

DCP Midstream, LLC has historically been the largest active shipper on the Black Lake pipeline, accounting for approximately 66% of total throughput in 2016. The Black Lake pipeline generates revenue primarily through a FERC-regulated tariff.

DCP Midstream, LLC supplied certain committed NGLs to our DJ Basin NGL fractionators under fee-based agreements.

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Our Marysville NGL storage facility serves wholesale propane customers, as well as refining and petrochemical customers, under one to three-year term storage agreements. Our revenues for this facility are primarily fee-based.

Competition

The NGL logistics business is highly competitive in our markets and includes interstate and intrastate pipelines, integrated oil and gas companies that produce, fractionate, transport, store and sell NGLs, and underground storage facilities. Competition is often the greatest in geographic areas experiencing robust drilling by producers and strong petrochemical demand and during periods of high NGL prices relative to natural gas. Competition is also increased in those geographic areas where our contracts with our customers are shorter term and therefore must be renegotiated on a more frequent basis.

Wholesale Propane Logistics Segment

General

We own or operate assets for our wholesale propane logistics business in the states of Maine, Massachusetts, New York, Pennsylvania, Vermont and Virginia. Our operations serve the large propane and other liquefied petroleum gas markets in the Northeastern, mid-Atlantic, and upper Midwestern states.

Due to our multiple propane supply sources, annual and long-term propane supply purchase arrangements, storage capabilities, and multiple terminal locations for wholesale propane delivery, we are generally able to provide our propane distribution customers with reliable, low cost deliveries and greater volumes of propane during periods of tight supply such as the winter months. We may also provide storage services to our customers for propane and other liquefied petroleum gases. We believe these factors generally result in our maintaining favorable relationships with our customers and allowing us to remain a supplier to many of the large distributors in the Northeastern and Mid-Atlantic United States. As a result, we serve as the baseload provider of propane supply to many of our propane distribution customers.

Pipeline deliveries to the Northeastern and Mid-Atlantic markets in the winter season are generally at capacity and competing pipeline-dependent terminals can have supply constraints or outages during peak market conditions. Our system of terminals has excess capacity, which provides us with opportunities to increase our volumes with minimal additional cost.

Our Terminals

Our operations include one owned marine terminal, one owned propane pipeline terminal and six owned propane rail terminals, with a combined capacity of approximately 550 MBbls, and access to several open access pipeline terminals. Our owned marine terminal also has storage capabilities for other liquefied petroleum gases. We own our rail terminals and lease the land on which the terminals are situated under long-term leases, except for the York terminal where we own the land. Each of our rail terminals consist of two to three propane tanks that provide additional capacity for storage, and two high volume racks for loading propane into trucks.

Propane Supply

Our wholesale propane business has a strategic network of supply arrangements under annual and multi-year agreements with index-based pricing. The remaining supply is purchased on month-to-month terms to match our anticipated sale requirements. Our primary suppliers of propane include a subsidiary of DCP Midstream, LLC, and MarkWest. We may also obtain supply from our NGL storage facility in Marysville, Michigan.

For our rail terminals, we contract for propane at various major supply points in the United States and Canada, and transport the product to our terminals under long-term rail commitments, which provide fixed transportation costs that are subject to prevailing fuel surcharges. We also purchase propane supply from natural gas fractionation plants and crude oil refineries located in the Texas and Louisiana Gulf Coast. Through this process, we take custody of the propane and either sell it in the wholesale market or store it at our facilities.

Based on the carrying value of our inventory, timing of inventory transactions and the volatility of the market value of propane, we have historically and may periodically recognize non-cash lower of cost or market inventory adjustments, which occur when the market value of our commodities declines below our carrying value.

Customers and Contracts

We typically sell propane to propane distributors under annual sales agreements, negotiated each spring, that specify floating price terms that provide us a margin in excess of our floating index-based supply costs under our supply purchase arrangements. In the event that a propane distributor desires to purchase propane from us on a fixed price basis, we may enter into fixed price sales agreements with terms of generally up to one year. We manage this commodity price risk by purchasing and storing propane, entering into physical purchase agreements or entering into offsetting financial derivative instruments with third parties that generally match the quantities of propane subject to these fixed price sales agreements. We believe that our ability to help our clients manage their commodity price exposure by offering propane at a fixed price may lead to improved margins and a larger customer base. We provide storage services for other liquefied petroleum gases on a fee basis under a multi-year agreement. Historically, the majority of the gross margin generated by our wholesale propane business is earned in the heating season months of October through April, which corresponds to the general market demand for propane.

We had two third-party customers in our Wholesale Propane segment that accounted for greater than 10% of our segment revenues for the year ended December 31, 2016.

Competition

The wholesale propane business is highly competitive in the mid-Atlantic, upper Midwestern and Northeastern regions of the United States. Our wholesale propane business' competitors include integrated oil and gas and energy companies, interstate and intrastate pipelines, as well as marketers and other wholesalers.

Other Segment Information

For additional information on our segments, please see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 19 of the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

We have no revenue attributable to international activities.