DCP Midstream, LP
Form 10-Q
August 08, 2018
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, 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 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)

(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 ý 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, 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 filerý Accelerated filer ¨ ¨

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

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
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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, 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.

PART I
Item 1. Financial Statements (Unaudited)
DCP MIDSTREAM, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS	(millions)	
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
LIABILITIES AND EQUITY		
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

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.

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

	Three Months Ended June 30,		Six Months 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)	
OPERATING ACTIVITIES:		
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
INVESTING ACTIVITIES:		
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)
FINANCING ACTIVITIES:		
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						
	Series A Preferred Limited Partners	Series B Preferred Limited Partners	Limited Partners	General Partner	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	(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					
	Predecessor Equity	Limited Partners	General Partner	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	(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..

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.

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:

	Three Months Ended June 30, 2018			
	Gathering and Processing	Logistics and Marketing	Eliminations	Total
	(millions)			
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	Logistics and Marketing	Eliminations	Total
	(millions)			
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,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(millions)			
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
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Three and Six Months Ended June 30, 2018 and 2017 - (Continued)
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Summary of Transactions with Affiliates

The following table summarizes our transactions with affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	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
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8. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

	Percentage Ownership	Carrying Value as of	
		June 30, 2018	December 31, 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	4
Total investments in unconsolidated affiliates		$3,165	$ 3,050

Earnings from investments in unconsolidated affiliates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(millions)			
DCP Sand Hills Pipeline, LLC	$58	$ 37	$106	$68
DCP Southern Hills Pipeline, LLC	16	13	29	24
Discovery Producer Services LLC	2	25	3	45
Front Range Pipeline LLC	5	3	10	7
Texas Express Pipeline LLC	8	1	10	3
Mont Belvieu Enterprise Fractionator	3	4	7	7
Mont Belvieu 1 Fractionator	4	3	8	4
Other	—	—	1	2
Total earnings from unconsolidated affiliates	$96	$ 86	$174	$160

The following tables summarize the combined financial information of our investments in unconsolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(millions)			
Statements of operations: (a)				
Operating revenue	$408	$368	$742	$705
Operating expenses	$147	$152	$286	$300
Net income	$260	$216	$454	$404

	June 30, 2018	December 31, 2017
	(millions)	
Balance sheets: (a)		
Current assets	$379	$ 244
Long-term assets	5,596	5,319
Current liabilities	(256)	(196)
Long-term liabilities	(227)	(200)
Net assets	$5,492	$ 5,167

(a) In accordance with the Gulf Coast Express Pipeline LLC ("GCX") joint venture agreement, earnings do not accrue to our interest until the construction of the pipeline is complete. Accordingly, we will not include activity related to GCX in the above tables until the period in which the construction is complete and earnings accrue to our interest.

9. Fair Value Measurement

Determination of Fair Value

Below is a general description of our valuation methodologies for derivative financial assets and liabilities which are measured at fair value. Fair values are generally based upon quoted market prices or prices obtained through external sources, where available. If listed market prices or quotes are not available, we determine fair value based upon a market quote, adjusted by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. These adjustments result in a fair value for each asset or liability under an "exit price" methodology, in line with how we believe a marketplace participant would value that asset or liability. Fair values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. These adjustments may include amounts to reflect counterparty credit quality, the effect of our own creditworthiness, and/or the liquidity of the market.

- Counterparty credit valuation adjustments are necessary when the market price of an instrument is not indicative of the fair value as a result of the credit quality of the counterparty. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. We record counterparty credit valuation adjustments on all derivatives that are in a net asset position as of the measurement date in accordance with our established counterparty credit policy, which takes into account any collateral margin that a counterparty may have posted with us as well as any letters of credit that they have provided.
- Entity valuation adjustments are necessary to reflect the effect of our own credit quality on the fair value of our net liability positions with each counterparty. This adjustment takes into account any credit enhancements, such as collateral margin we may have posted with a counterparty, as well as any letters of credit that we have provided. The methodology to determine this adjustment is consistent with how we evaluate counterparty credit risk, taking into account our own credit rating, current credit spreads, as well as any change in such spreads since the last measurement date.
- Liquidity valuation adjustments are necessary when we are not able to observe a recent market price for financial instruments that trade in less active markets for the fair value to reflect the cost of exiting the position. Exchange traded contracts are valued at market value without making any additional valuation adjustments and, therefore, no liquidity reserve is applied. For contracts other than exchange traded instruments, we mark our positions to the midpoint of the bid/ask spread, and record a liquidity reserve based upon our total net position. We believe that such practice results in the most reliable fair value measurement as viewed by a market participant.

We manage our derivative instruments on a portfolio basis and the valuation adjustments described above are calculated on this basis. We believe that the portfolio level approach represents the highest and best use for these assets as there are benefits inherent in naturally offsetting positions within the portfolio at any given time, and this approach is consistent with how a market participant would view and value the assets and liabilities. Although we take a portfolio approach to managing these assets/liabilities, in order to reflect the fair value of any one individual contract within the portfolio, we allocate all valuation adjustments down to the contract level, to the extent deemed necessary, based upon either the notional contract volume, or the contract value, whichever is more applicable.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe that our valuation methods are appropriate and consistent with other market participants, we recognize that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We review our fair value policies on a regular basis taking into consideration changes in the marketplace and, if necessary, will adjust our policies accordingly. See Note 11 - Risk Management and Hedging Activities.

Valuation Hierarchy

Our fair value measurements are grouped into a three-level valuation hierarchy and are categorized in their entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 — inputs are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs are unobservable and considered significant to the fair value measurement.

A financial instrument’s categorization within the hierarchy is based upon the level of judgment involved in the most significant input in the determination of the instrument’s fair value. Following is a description of the valuation methodologies used as well as the general classification of such instruments pursuant to the hierarchy.

Commodity Derivative Assets and Liabilities

We enter into a variety of derivative financial instruments, which may include exchange traded instruments (such as New York Mercantile Exchange, or NYMEX, crude oil or natural gas futures) or over-the-counter, or OTC, instruments (such as natural gas contracts, crude oil or NGL swaps). The exchange traded instruments are generally executed with a highly rated broker dealer serving as the clearinghouse for individual transactions.

Our activities expose us to varying degrees of commodity price risk. To mitigate a portion of this risk and to manage commodity price risk related primarily to owned natural gas storage and pipeline assets, we engage in natural gas asset based trading and marketing, and we may enter into natural gas and crude oil derivatives to lock in a specific margin when market conditions are favorable. A portion of this may be accomplished through the use of exchange traded derivative contracts. Such instruments are generally classified as Level 1 since the value is equal to the quoted market price of the exchange traded instrument as of our balance sheet date, and no adjustments are required. Depending upon market conditions and our strategy we may enter into exchange traded derivative positions with a significant time horizon to maturity. Although such instruments are exchange traded, market prices may only be readily observable for a portion of the duration of the instrument. In order to calculate the fair value of these instruments, readily observable market information is utilized to the extent it is available; however, in the event that readily observable market data is not available, we may interpolate or extrapolate based upon observable data. In instances where we utilize an interpolated or extrapolated value, and it is considered significant to the valuation of the contract as a whole, we would classify the instrument within Level 3.

We also engage in the business of trading energy related products and services, which exposes us to market variables and commodity price risk. We may enter into physical contracts or financial instruments with the objective of realizing a positive margin from the purchase and sale of these commodity-based instruments. We may enter into derivative instruments for NGLs or other energy related products, primarily using the OTC derivative instrument markets, which are not as active and liquid as exchange traded instruments. Market quotes for such contracts may only be available for short dated positions (up to six months), and an active market itself may not exist beyond such time horizon. Contracts entered into with a relatively short time horizon for which prices are readily observable in the OTC market are generally classified within Level 2. Contracts with a longer time horizon, for which we internally generate a forward curve to value such instruments, are generally classified within Level 3. The internally generated curve may utilize a variety of assumptions including, but not limited to, data obtained from third-party pricing services, historical and future expected relationship of NGL prices to crude oil prices, the knowledge of expected supply sources coming online, expected weather trends within certain regions of the United States, and the future expected demand for NGLs.

Each instrument is assigned to a level within the hierarchy at the end of each financial quarter depending upon the extent to which the valuation inputs are observable. Generally, an instrument will move toward a level within the hierarchy that requires a lower degree of judgment as the time to maturity approaches, and as the markets in which the asset trades will likely become more liquid and prices more readily available in the market, thus reducing the need to rely upon our internally developed assumptions. However, the level of a given instrument may change, in either direction, depending upon market conditions and the availability of market observable data.

Nonfinancial Assets and Liabilities

We utilize fair value to perform impairment tests as required on our property, plant and equipment, goodwill, equity investments, and other long-lived intangible assets. Assets and liabilities acquired in third party business combinations are recorded at their fair value as of the date of acquisition. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified within Level 3 in the event that we were required to measure and record such assets at fair value within our condensed consolidated financial statements. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified within Level 3.

The following table presents the financial instruments carried at fair value as of June 30, 2018 and December 31, 2017, by condensed consolidated balance sheet caption and by valuation hierarchy, as described above:

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(millions)							
Current assets:								
Commodity derivatives (a)	$36	$ 8	$ 1	$ 45	$10	$ 17	$ 3	$ 30
Short-term investments (b)	$3	$ —	$ —	$ 3	$156	$ —	$ —	$ 156
Long-term assets:								
Commodity derivatives (c)	$6	$ 1	$ 1	$ 8	$1	$ 1	$ 1	$ 3
Current liabilities:								
Commodity derivatives (d)	$(77)	$ (54)	$ (10)	$ (141)	$(29)	$ (34)	$ (13)	$ (76)
Long-term liabilities:								
Commodity derivatives (e)	$(12)	$ (10)	$ (7)	$ (29)	$(3)	$ (11)	$ (1)	$ (15)

(a) Included in current unrealized gains on derivative instruments in our condensed consolidated balance sheets.

(b) Includes short-term money market securities included in cash and cash equivalents in our condensed consolidated balance sheets.

(c) Included in long-term unrealized gains on derivative instruments in our condensed consolidated balance sheets.

(d) Included in current unrealized losses on derivative instruments in our condensed consolidated balance sheets.

(e) Included in long-term unrealized losses on derivative instruments in our condensed consolidated balance sheets.

Changes in Levels 1 and 2 Fair Value Measurements

The determination to classify a financial instrument within Level 1 or Level 2 is based upon the availability of quoted prices for identical or similar assets and liabilities in active markets. Depending upon the information readily observable in the market, and/or the use of identical or similar quoted prices, which are significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. To qualify as a transfer, the asset or liability must have existed in the previous reporting period and moved into a different level during the current period. In the event that there is a movement between the classification of an instrument as Level 1 or 2, the transfer would be reflected in a table as “Transfers into or out of Level 1 and Level 2”. During the six months ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

Changes in Level 3 Fair Value Measurements

The tables below illustrate a rollforward of the amounts included in our condensed consolidated balance sheets for derivative financial instruments that we have classified within Level 3. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily observable in the market, and/or the use of unobservable inputs, which are significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. The significant unobservable inputs used in determining fair value include adjustments by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. In the event that there is a movement to/from the classification of an instrument as Level 3, we would reflect such items in the table below within the “Transfers into/out of Level 3” captions.

We manage our overall risk at the portfolio level and in the execution of our strategy, we may use a combination of financial instruments, which may be classified within any level. Since Level 1 and Level 2 risk management instruments are not included in the rollforward below, the gains or losses in the table do not reflect the effect of our total risk management activities.

	Commodity Derivative Instruments			
	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities
	(millions)			
Three months ended June 30, 2018 (a):				
Beginning balance	$2	$ —	$ (6)	$ (3)
Net unrealized gains (losses) included in earnings (b)	1	1	(14)	(4)
Transfers out of Level 3 (c)	(2)	—	8	—
Settlements	—	—	2	—
Ending balance	$1	$ 1	$ (10)	$ (7)
Net unrealized gains (losses) on derivatives still held included in earnings (b)	$1	$ 1	$ (8)	$ (4)
Three months ended June 30, 2017 (a):				
Beginning balance	$8	$ 2	$ (8)	$ (3)
Net unrealized gains included in earnings (b)	3	—	1	—
Transfers out of Level 3 (c)	(3)	—	3	—
Settlements	(1)	—	2	—
Ending balance	$7	$ 2	$ (2)	$ (3)
Net unrealized gains on derivatives still held included in earnings (b)	$4	$ —	$ —	$ —

	Commodity Derivative Instruments			
	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities
	(millions)			
Six months ended June 30, 2018 (a):				
Beginning balance	$3	$ 1	$ (13)	$ (1)
Net unrealized losses included in earnings (b)	—	—	(12)	(6)
Transfers out of Level 3 (c)	(2)	—	12	—
Settlements	—	—	3	—
Ending balance	$1	$ 1	$ (10)	$ (7)
Net unrealized gains (losses) on derivatives still held included in earnings (b)	$1	$ —	$ (7)	$ (6)
Six months ended June 30, 2017 (a):				
Beginning balance	$9	$ 5	$ (23)	$ —
Net unrealized gains (losses) included in earnings (b)	1	(3)	13	(3)
Transfers out of Level 3 (c)	(2)	—	3	—
Settlements	(1)	—	5	—
Ending balance	$7	$ 2	$ (2)	$ (3)
Net unrealized gains (losses) on derivatives still held included in earnings (b)	$6	$ (2)	$ 3	$ (3)

(a) There were no purchases, issuances or sales of derivatives or transfers into Level 3 for the three and six months ended June 30, 2018 and 2017.

(b) Represents the amount of unrealized gains or losses for the period, included in trading and marketing gains (losses), net.

(c) Amounts transferred out of Level 3 are reflected at fair value at the end of the period.

Quantitative Information and Fair Value Sensitivities Related to Level 3 Unobservable Inputs

We utilize the market approach to measure the fair value of our commodity contracts. The significant unobservable inputs used in this approach to fair value are longer dated price quotes. Our sensitivity to these longer dated forward curve prices are presented in the table below. Significant changes in any of those inputs in isolation would result in significantly different fair value measurements, depending on our short or long position in contracts.

	June 30, 2018		
Product Group	Fair Value	Forward Curve Range	
	(millions)		
Assets			
NGLs	$2	$0.29-$1.08	Per gallon
Liabilities			
NGLs	$(12)	$0.14-$1.49	Per gallon
Natural gas	$(5)	$1.57-$2.66	Per MMBtu

Estimated Fair Value of Financial Instruments

Valuation of a contract’s fair value is validated by an internal group independent of the marketing group. While common industry practices are used to develop valuation techniques, changes in pricing methodologies or the underlying assumptions could result in significantly different fair values and income recognition. When available, quoted market prices or prices obtained through external sources are used to determine a contract’s fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on pricing models developed primarily from historical and expected relationships with quoted market prices.

Values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. Changes in market prices and management estimates directly affect the estimated fair value of these contracts. Accordingly, it is reasonably possible that such estimates may change in the near term.

The fair value of our interest rate swaps, if any, and commodity non-trading derivatives is based on prices supported by quoted market prices and other external sources and prices based on models and other valuation methods. The “prices supported by quoted market prices and other external sources” category includes our interest rate swaps, if any, our NGL and crude oil swaps and our NYMEX positions in natural gas. In addition, this category includes our forward positions in natural gas for which our forward price curves are obtained from a third party pricing service and then validated through an internal process which includes the use of independent broker quotes. This category also includes our forward positions in NGLs at points for which OTC broker quotes for similar assets or liabilities are available for the full term of the instrument. This category also includes “strip” transactions whose pricing inputs are directly or indirectly observable from external sources and then modeled to daily or monthly prices as appropriate. The “prices based on models and other valuation methods” category includes the value of transactions for which inputs to the fair value of the instrument are unobservable in the marketplace and are considered significant to the overall fair value of the instrument. The fair value of these instruments may be based upon an internally developed price curve, which was constructed as a result of the long dated nature of the transaction or the illiquidity of the specific market point.

We have determined fair value amounts using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The fair value of accounts receivable, accounts payable and short-term borrowings are not materially different from their carrying amounts because of the short-term nature of these instruments or the stated rates approximating market rates. Derivative instruments are carried at fair value.

We determine the fair value of our fixed-rate senior notes and junior subordinated notes based on quotes obtained from bond dealers. We determine the fair value of borrowings under our Credit Agreement based upon the discounted present value of expected future cash flows, taking into account the difference between the contractual borrowing spread and the spread for similar credit facilities available in the marketplace. We classify the fair values of our outstanding debt balances within Level 2 of the valuation hierarchy. As of June 30, 2018 and December 31, 2017, the carrying value and fair value of our total debt, including current maturities, were as follows:

	June 30, 2018		December 31, 2017	
	Carrying Value (a)	Fair Value	Carrying Value (a)	Fair Value
	(millions)			
Total debt	$4,861	$4,896	$4,736	$4,885

(a) Excludes unamortized issuance costs.

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10. Debt

	June 30, 2018	December 31, 2017
	(millions)	
Senior notes:		
Issued February 2009, interest at 9.750% payable semiannually, due March 2019 (a)	$450	$ 450
Issued March 2014, interest at 2.700% payable semi-annually, due April 2019	325	325
Issued March 2010, interest at 5.350% payable semiannually, due March 2020 (a)	600	600
Issued September 2011, interest at 4.750% payable semiannually, due September 2021	500	500
Issued March 2012, interest at 4.950% payable semi-annually, due April 2022	350	350
Issued March 2013, interest at 3.875% payable semi-annually, due March 2023	500	500
Issued August 2000, interest at 8.125% payable semi-annually, due August 2030 (a)	300	300
Issued October 2006, interest at 6.450% payable semi-annually, due November 2036	300	300
Issued September 2007, interest at 6.750% payable semi-annually, due September 2037	450	450
Issued March 2014, interest at 5.600% payable semi-annually, due April 2044	400	400
Junior subordinated notes:		
Issued May 2013, interest at 5.850% payable semi-annually, due May 2043	550	550
Credit agreement:		
Revolving credit facility, weighted-average variable interest rate of 3.452%, as of June 30, 2018, due December 2022	125	—
Fair value adjustments related to interest rate swap fair value hedges (a)	22	23
Unamortized issuance costs	(26)	(29)
Unamortized discount	(11)	(12)
Total debt	4,835	4,707
Current maturities of long-term debt	325	—
Total long-term debt	$4,510	$ 4,707

(a) The swaps associated with this debt were previously terminated. The remaining long-term fair value of approximately
$22 million related to the swaps is being amortized as a reduction to interest expense through 2019, 2020 and 2030, the original maturity dates of the debt.

Credit Agreement

We are a party to a $1.4 billion unsecured revolving Credit Agreement which matures on December 6, 2022. The Credit Agreement also grants us the option to increase the revolving loan commitment by an aggregate principal amount of up to $500 million, subject to requisite lender approval. The Credit Agreement may be extended for up to two additional one-year periods subject to requisite lender approval. Loans under the Credit Agreement may be used for working capital and other general partnership purposes including acquisitions.

The Credit Agreement allows for unrestricted cash and cash equivalents to be netted against consolidated indebtedness for purposes of calculating the Partnership's Consolidated Leverage Ratio (as defined in the Credit Agreement). Additionally, under the Credit Agreement, the Consolidated Leverage Ratio of the Partnership as of the end of any fiscal quarter shall not exceed: (a) 5.25 to 1.0 for the fiscal quarter ending June 30, 2018, and (b) 5.00 to 1.0 for each fiscal quarter ending thereafter; provided that, if there is a Qualified Acquisition (as defined in the Credit Agreement) during any fiscal quarter ending June 30, 2018 or thereafter, the maximum Consolidated Leverage Ratio shall not exceed 5.50 to 1.0 at the end of the three consecutive fiscal quarters, including the fiscal quarter in which the

Qualified Acquisition occurs.

Our cost of borrowing under the Credit Agreement is determined by a ratings-based pricing grid. Indebtedness under the Credit Agreement bears interest at either: (1) LIBOR, plus an applicable margin of 1.45% based on our current credit rating; or (2) (a) the base rate which shall be the higher of the prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1%, plus (b) an applicable margin of 0.45% based on our current credit rating. The Credit Agreement incurs an annual facility fee of 0.30% based on our current credit rating. This fee is paid on drawn and undrawn portions of the $1.4 billion revolving credit facility.

As of June 30, 2018, we had unused borrowing capacity of $1,250 million, net of $25 million of letters of credit, under the Credit Agreement. Our borrowing capacity may be limited by financial covenants set forth in the Credit Agreement. The financial covenants set forth in the Credit Agreement limit the Partnership's ability to incur incremental debt by the unused borrowing capacity of $1,250 million as of June 30, 2018. Except in the case of a default, amounts borrowed under our Credit Agreement will not become due prior to the December 6, 2022 maturity date.

Senior Notes and Junior Subordinated Notes

Our senior notes and junior subordinated notes, collectively referred to as our debt securities, mature and become payable on their respective due dates, and are not subject to any sinking fund or mandatory redemption provisions. The senior notes are senior unsecured obligations that are guaranteed by the Partnership and rank equally in a right of payment with our other senior unsecured indebtedness, including indebtedness under our Credit Agreement, and the junior subordinated notes are unsecured and rank subordinate in right of payment to all of our existing and future senior indebtedness. The debt securities include an optional redemption whereby we may elect to redeem the notes, in whole or in part from time-to-time for a premium. Additionally, we may defer the payment of all or part of the interest on the junior subordinated notes for one or more periods up to five consecutive years. The underwriters’ fees and related expenses are recorded in our condensed consolidated balance sheets within the carrying amount of long-term debt and will be amortized over the term of the notes.

The maturities of our long-term debt as of June 30, 2018 are as follows:

	Debt Maturities (millions)
2018	$ —
2019	775
2020	600
2021	500
2022	475
Thereafter	2,500
Total long-term debt	$ 4,850

11. Risk Management and Hedging Activities

Our operations expose us to a variety of risks including but not limited to changes in the prices of commodities that we buy or sell, changes in interest rates, and the creditworthiness of each of our counterparties. We manage certain of these exposures with either physical or financial transactions. We have established a comprehensive risk management policy and a risk management committee, or the Risk Management Committee, to monitor and manage market risks associated with commodity prices and counterparty credit. The Risk Management Committee is composed of senior executives who receive regular briefings on positions and exposures, credit exposures and overall risk management in the context of market activities. The Risk Management Committee is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits. The following describes each of the risks that we manage.

Commodity Price Risk

Our portfolio of commodity derivative activity is primarily accounted for using the mark-to-market method of accounting; however, depending upon our risk profile and objectives, in certain limited cases, we may execute transactions that qualify for the hedge method of accounting. The risks, strategies and instruments used to mitigate such risks, as well as the method of accounting are discussed and summarized below.

Natural Gas Asset Based Trading and Marketing

Our natural gas storage and pipeline assets are exposed to certain risks including changes in commodity prices. We manage commodity price risk related to our natural gas storage and pipeline assets through our commodity derivative program. The commercial activities related to our natural gas storage and pipeline assets primarily consist of the purchase and sale of 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 us to lock in a margin supported by the injection, withdrawal, and storage capacity of our natural gas storage assets. We may execute basis spread transactions to mitigate the risk of sale and purchase price differentials across our system. A basis spread transaction allows us to lock in a margin on our physical purchases and sales of gas, including injections and withdrawals from storage. We typically use swaps to execute these transactions, which are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations. While gas held in our storage locations is recorded at the lower of average cost or market, the derivative instruments that are used to manage our storage facilities are recorded at fair value and any changes in fair value are currently recorded in our condensed consolidated statements of operations. Even though we may have economically hedged our exposure and locked in a future margin, the use of lower-of-cost-or-market accounting for our physical inventory and the use of mark-to-market accounting for our derivative instruments may subject our earnings to market volatility.

Commodity Cash Flow Hedges

In order for our natural gas storage facility to remain operational, a minimum level of base gas must be maintained in each storage cavern, which is capitalized on our condensed consolidated balance sheets as a component of property, plant and equipment, net. During construction or expansion of our storage caverns, we may execute a series of derivative financial instruments to mitigate a portion of the risk associated with the forecasted purchase of natural gas when we bring the storage caverns into operation. These derivative financial instruments may be designated as cash flow hedges. While the cash paid upon settlement of these hedges economically fixes the cash required to purchase base gas, the deferred losses or gains would remain in accumulated other comprehensive income, or AOCI, until the cavern is emptied and the base gas is sold. The balance in AOCI of our previously settled base gas cash flow hedges was in a loss position of $6 million as of June 30, 2018.

Commodity Cash Flow Protection Activities

We are exposed to the impact of market fluctuations in the prices of natural gas, NGLs and condensate as a result of our gathering, processing, sales and storage activities. For gathering, processing and storage services, we may receive cash or commodities as payment for these services, depending on the contract type. We may enter into derivative financial instruments to mitigate a portion of the risk of weakening natural gas, NGL and condensate prices associated with our gathering, processing and sales activities, thereby stabilizing our cash flows. Our derivative financial instruments used to mitigate a portion of the risk of weakening natural gas, NGL and condensate prices extend through the first quarter of 2020. The commodity derivative instruments used for our hedging programs are a combination of direct NGL product, crude oil and natural gas hedges. Crude oil and NGL transactions are primarily accomplished through the use of forward contracts that effectively exchange floating price risk for a fixed price. The type of instrument used to mitigate a portion of the risk may vary depending on our risk management objectives.

These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected in the current period within our condensed consolidated statements of operations as trading and marketing gains and (losses), net.

NGL Proprietary Trading

Our NGL proprietary trading activity includes trading energy related products and services. We undertake these activities 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. These physical and financial instruments are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations.

We employ established risk limits, policies and procedures to manage risks associated with our natural gas asset based trading and marketing and NGL proprietary trading.

Credit Risk

Our principal customers range from large, natural gas marketers to industrial end-users for our natural gas products and services, as well as large multi-national petrochemical and refining companies, to small regional propane distributors for our NGL products and services. Substantially all of our natural gas and NGL sales are made at market-based prices. Approximately 18% of our NGL production was committed to Phillips 66 and CPChem as of June 30, 2018. This concentration of credit risk may affect our overall credit risk, in that these customers may be similarly affected by changes in economic, regulatory or other factors. Where exposed to credit risk, we analyze the counterparties' financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of these limits on an ongoing basis. We may use various master agreements that include language giving us the right to request collateral to mitigate credit exposure. The collateral language provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with our credit policy. The collateral language also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions. In addition, our master agreements and our standard gas and NGL sales contracts contain adequate assurance provisions, which allow us to suspend deliveries and cancel agreements, or continue deliveries to the buyer after the buyer provides acceptable security for payment.

Contingent Credit Features

Each of the above risks is managed through the execution of individual contracts with a variety of counterparties. Certain of our derivative contracts may contain credit-risk related contingent provisions that may require us to take certain actions in certain circumstances.

We have International Swaps and Derivatives Association, or ISDA, contracts which are standardized master legal arrangements that establish key terms and conditions which govern certain derivative transactions. These ISDA contracts contain standard credit-risk related contingent provisions. Some of the provisions we are subject to are outlined below.

- If we were to have an effective event of default under our Credit Agreement that occurs and is continuing, our ISDA counterparties may have the right to request early termination and net settlement of any outstanding derivative liability positions.
- Our ISDA counterparties generally have collateral thresholds of zero, requiring us to fully collateralize any commodity contracts in a net liability position, when our credit rating is below investment grade.
-

Additionally, in some cases, our ISDA contracts contain cross-default provisions that could constitute a credit-risk related contingent feature. These provisions apply if we default in making timely payments under other credit arrangements and the amount of the default is above certain predefined thresholds, which are significantly high and are generally consistent with the terms of our Credit Agreement. As of June 30, 2018, we were not a party to any agreements that would trigger the cross-default provisions.

Our commodity derivative contracts that are not governed by ISDA contracts do not have any credit-risk related contingent features. Depending upon the movement of commodity prices and interest rates, each of our individual contracts with counterparties to our commodity derivative instruments or interest rate swap instruments are in either a net asset or net liability position. As of June 30, 2018, we had less than $1 million of individual commodity derivative contracts that contain credit-risk related contingent features that were in a net liability position. If we were required to net settle our position with an individual counterparty, due to a credit-risk related event, our ISDA contracts may permit us to net all outstanding contracts with that counterparty, whether in a net asset or net liability position, as well as any cash collateral already posted. As of June 30, 2018, we have not been required to post additional collateral.

Collateral

As of June 30, 2018, we had cash deposits of $138 million, included in collateral cash deposits in our condensed consolidated balance sheets, and letters of credit of $13 million with counterparties to secure our obligations to provide future services or to perform under financial contracts. Additionally, as of June 30, 2018, we held cash of $6 million, included in other current liabilities in our condensed consolidated balance sheet, related to cash postings by third parties and letters of credit of $43 million from counterparties to secure their future performance under financial or physical contracts. Collateral amounts held or posted may be fixed or may vary, depending on the value of the underlying contracts, and could cover normal purchases and sales, services, trading and hedging contracts. In many cases, we and our counterparties have publicly disclosed credit ratings, which may impact the amounts of collateral requirements.

Physical forward contracts and financial derivatives are generally cash settled at the expiration of the contract term. These transactions are generally subject to specific credit provisions within the contracts that would allow the seller, at its discretion, to suspend deliveries, cancel agreements or continue deliveries to the buyer after the buyer provides security for payment satisfactory to the seller.

Offsetting

Certain of our derivative instruments are subject to a master netting or similar arrangement, whereby we may elect to settle multiple positions with an individual counterparty through a single net payment. Each of our individual derivative instruments are presented on a gross basis on the condensed consolidated balance sheets, regardless of our ability to net settle our positions. Instruments that are governed by agreements that include net settle provisions allow final settlement, when presented with a termination event, of outstanding amounts by extinguishing the mutual debts owed between the parties in exchange for a net amount due. We have trade receivables and payables associated with derivative instruments, subject to master netting or similar agreements, which are not included in the table below. The following summarizes the gross and net amounts of our derivative instruments:

	June 30, 2018			December 31, 2017		
	Gross Amounts of Assets and (Liabilities) Presented in the Balance Sheet	Amounts Not Offset in the Balance Sheet - Financial Instruments	Net Amount	Gross Amounts of Assets and (Liabilities) Presented in the Balance Sheet	Amounts Not Offset in the Balance Sheet - Financial Instruments	Net Amount
	(millions)					
Assets:						
Commodity derivatives	$53	$ —	$53	$33	$ —	$ 33
Liabilities:						
Commodity derivatives	$(170)	$ —	$(170)	$(91)	$ —	$ (91)

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

Summarized Derivative Information

The fair value of our derivative instruments that are marked-to-market each period, as well as the location of each within our condensed consolidated balance sheets, by major category, is summarized below. We have no derivative instruments that are designated as hedging instruments for accounting purposes as of June 30, 2018 and December 31, 2017.

Balance Sheet Line Item	June 30, 2018	December 31, 2017	Balance Sheet Line Item	June 30, 2018	December 31, 2017
	(millions)			(millions)	
Derivative Assets Not Designated as Hedging Instruments:			Derivative Liabilities Not Designated as Hedging Instruments:		
Commodity derivatives:			Commodity derivatives:		
Unrealized gains on derivative instruments — current	$45	$ 30	Unrealized losses on derivative instruments — current	$(141)	$ (76)
Unrealized gains on derivative instruments — long-term	8	3	Unrealized losses on derivative instruments — long-term	(29)	(15)
Total	$53				