

DCP Midstream Partners, LP
Form 10-Q
May 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 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 PARTNERS, LP
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Yes No

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

Large accelerated filer 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

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

DCP MIDSTREAM PARTNERS, LP
 FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016
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GLOSSARY OF TERMS

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

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

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

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

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, including the following risks and uncertainties:

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

our ability to obtain insurance on commercially reasonable terms, if at all, as well as the adequacy of insurance to cover our losses; and

the amount of gas we gather, compress, treat, process, transport, store and sell, or the NGLs we produce, fractionate, transport, store and sell, may be reduced if the pipelines and storage and fractionation facilities to which we deliver the natural gas or NGLs are capacity constrained and cannot, or will not, accept the gas or NGLs.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. The forward-looking statements in this report speak as of the filing date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2016	December 31, 2015
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1	\$ 2
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$1 million	64	73
Affiliates	72	81
Inventories	37	43
Unrealized gains on derivative instruments	48	105
Other	1	2
Total current assets	223	306
Property, plant and equipment, net	3,446	3,476
Goodwill	72	72
Intangible assets, net	110	112
Investments in unconsolidated affiliates	1,486	1,493
Unrealized gains on derivative instruments	7	9
Other long-term assets	10	9
Total assets	\$5,354	\$ 5,477
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$85	\$ 98
Affiliates	20	19
Unrealized losses on derivative instruments	5	18
Accrued interest	30	19
Accrued taxes	18	12
Other	17	34
Total current liabilities	175	200
Long-term debt	2,377	2,424
Unrealized losses on derivative instruments	—	1
Other long-term liabilities	48	47
Total liabilities	2,600	2,672
Commitments and contingent liabilities		
Equity:		
Limited partners (114,742,948 and 114,742,948 common units issued and outstanding, respectively)	2,713	2,762
General partner	18	18
Accumulated other comprehensive loss	(8) (8
Total partners' equity	2,723	2,772
Noncontrolling interests	31	33
Total equity	2,754	2,805

Total liabilities and equity	\$5,354	\$ 5,477
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See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		
	March 31,		
	2016	2015	
	(Millions, except per unit amounts)		
Operating revenues:			
Sales of natural gas, propane, NGLs and condensate	\$ 105	\$ 189	
Sales of natural gas, propane, NGLs and condensate to affiliates	162	281	
Transportation, processing and other	61	56	
Transportation, processing and other to affiliates	42	23	
Gains from commodity derivative activity, net	4	5	
Gains from commodity derivative activity, net — affiliates	5	14	
Total operating revenues	379	568	
Operating costs and expenses:			
Purchases of natural gas, propane and NGLs	208	367	
Purchases of natural gas, propane and NGLs from affiliates	23	35	
Operating and maintenance expense	48	47	
Depreciation and amortization expense	32	29	
General and administrative expense	2	3	
General and administrative expense — affiliates	19	18	
Total operating costs and expenses	332	499	
Operating income	47	69	
Interest expense	(24) (22)
Earnings from unconsolidated affiliates	49	23	
Income before income taxes	72	70	
Income tax expense	—	(1)
Net income	72	69	
Net income attributable to noncontrolling interests	—	—	
Net income attributable to partners	72	69	
General partner's interest in net income	(31) (31)
Net income allocable to limited partners	\$ 41	\$ 38	
Net income per limited partner unit — basic and diluted	\$ 0.36	\$ 0.33	
Weighted-average limited partner units outstanding — basic and diluted	14.7	114.2	
See accompanying notes to condensed consolidated financial statements.			

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

	Three Months Ended March 31, 2016	2015 (Millions)
Net income	\$ 72	\$ 69
Other comprehensive income:		
Reclassification of cash flow hedge losses into earnings	—	1
Total other comprehensive income	—	1
Total comprehensive income attributable to partners	\$ 72	\$ 70

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2016 2015 (Millions)	
OPERATING ACTIVITIES:		
Net income	\$72	\$69
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	32	29
Earnings from unconsolidated affiliates	(49)	(23)
Distributions from unconsolidated affiliates	63	26
Net unrealized losses on derivative instruments	45	43
Other, net	2	2
Change in operating assets and liabilities, which provided (used) cash, net of effects of acquisitions:		
Accounts receivable	19	61
Inventories	6	27
Accounts payable	(10)	(59)
Accrued interest	10	12
Other current assets and liabilities	(2)	(3)
Other long-term assets and liabilities	—	4
Net cash provided by operating activities	188	188
INVESTING ACTIVITIES:		
Capital expenditures	(10)	(65)
Investments in unconsolidated affiliates, net	(8)	(25)
Net cash used in investing activities	(18)	(90)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	394	162
Payments of long-term debt	(442)	(162)
Proceeds from issuance of common units, net of offering costs	—	31
Distributions to limited partners and general partner	(121)	(120)
Distributions to noncontrolling interests	(2)	(1)
Net cash used in financing activities	(171)	(90)
Net change in cash and cash equivalents	(1)	8
Cash and cash equivalents, beginning of period	2	25
Cash and cash equivalents, end of period	\$1	\$33
See accompanying notes to condensed consolidated financial statements.		

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

	Partners' Equity		Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Limited Partners	General Partner			
	(Millions)				
Balance, January 1, 2016	\$2,762	\$ 18	\$ (8)	\$ 33	\$2,805
Net income	41	31	—	—	72
Distributions to limited partners and general partner	(90)	(31)	—	—	(121)
Distributions to noncontrolling interests	—	—	—	(2)	(2)
Balance, March 31, 2016	\$2,713	\$ 18	\$ (8)	\$ 31	\$2,754

See accompanying notes to condensed consolidated financial statements.

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

	Partners' Equity				Total Equity
	Limited Partners	General Partner	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	
	(Millions)				
Balance, January 1, 2015	\$2,984	\$ 18	\$ (9)	\$ 33	\$3,026
Net income	38	31	—	—	69
Other comprehensive income	—				