



DCP Midstream, LLC
Condensed Consolidated Financial Statements for the
Three and Nine Months Ended September 30, 2016 and 2015
(Unaudited)

DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2016	December 31, 2015
	(millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15	\$ 3
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$4 million for both periods	563	444
Affiliates	108	75
Other	12	21
Inventories	50	51
Unrealized gains on derivative instruments	49	156
Other	35	50
Total current assets	832	800
Property, plant and equipment, net	9,113	9,428
Investments in unconsolidated affiliates	2,971	2,992
Intangible assets, net	140	149
Goodwill	236	242
Unrealized gains on derivative instruments	8	19
Other long-term assets	231	251
Total assets	<u>\$ 13,531</u>	<u>\$ 13,881</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 538	\$ 480
Affiliates	43	40
Other	13	25
Unrealized losses on derivative instruments	40	69
Accrued interest	57	72
Accrued taxes	91	38
Other	140	172
Total current liabilities	922	896
Deferred income taxes	29	26
Long-term debt	5,375	5,669
Unrealized losses on derivative instruments	3	12
Other long-term liabilities	190	187
Total liabilities	6,519	6,790
Commitments and contingent liabilities		
Equity:		
Members' interest	4,711	4,691
Accumulated other comprehensive loss	(4)	(4)
Total members' equity	4,707	4,687
Noncontrolling interests	2,305	2,404
Total equity	7,012	7,091
Total liabilities and equity	<u>\$ 13,531</u>	<u>\$ 13,881</u>

See Notes to Condensed Consolidated Financial Statements.

DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(millions)			
Operating revenues:				
Sales of natural gas and petroleum products	\$ 1,405	\$ 1,484	\$ 3,767	\$ 4,683
Sales of natural gas and petroleum products to affiliates	249	192	662	613
Transportation, storage and processing	162	129	469	372
Trading and marketing gains, net	15	65	10	83
Total operating revenues	<u>1,831</u>	<u>1,870</u>	<u>4,908</u>	<u>5,751</u>
Operating costs and expenses:				
Purchases of natural gas and petroleum products	1,311	1,357	3,501	4,344
Purchases of natural gas and petroleum products from affiliates	126	121	356	314
Operating and maintenance	179	202	524	545
Depreciation and amortization	94	93	284	278
Goodwill impairment	—	33	—	460
General and administrative	64	64	191	196
Other income	—	—	(87)	—
Gain on sale of assets, net	(41)	(59)	(35)	(42)
Restructuring costs	2	2	10	10
Total operating costs and expenses	<u>1,735</u>	<u>1,813</u>	<u>4,744</u>	<u>6,105</u>
Operating income (loss)	96	57	164	(354)
Earnings from unconsolidated affiliates	78	54	217	119
Interest expense, net	(78)	(86)	(236)	(241)
Income (loss) before income taxes	96	25	145	(476)
Income tax (expense) benefit	(1)	(1)	(6)	3
Net income (loss)	95	24	139	(473)
Net income attributable to noncontrolling interests	(70)	(30)	(119)	(36)
Net income (loss) attributable to members' interests	<u>\$ 25</u>	<u>\$ (6)</u>	<u>\$ 20</u>	<u>\$ (509)</u>

See Notes to Condensed Consolidated Financial Statements.

DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(millions)			
Net income (loss)	\$ 95	\$ 24	\$ 139	\$ (473)
Other comprehensive income:				
Reclassification of cash flow hedge losses into earnings	—	1	—	2
Total other comprehensive income	—	1	—	2
Total comprehensive income (loss)	95	25	139	(471)
Total comprehensive income attributable to noncontrolling interests	(70)	(30)	(119)	(37)
Total comprehensive income (loss) attributable to members' interests	\$ 25	\$ (5)	\$ 20	\$ (508)

See Notes to Condensed Consolidated Financial Statements.

DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(millions)	
Cash flows from operating activities:		
Net income (loss)	\$ 139	\$ (473)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	284	278
Earnings from unconsolidated affiliates	(217)	(119)
Distributions from unconsolidated affiliates	274	144
Deferred income tax expense (benefit)	3	(7)
Net unrealized losses (gains) on derivative instruments	80	(81)
Goodwill impairments	—	460
Gain on sale of assets, net	(35)	(42)
Other, net	27	20
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(143)	351
Inventories	1	25
Accounts payable	62	(298)
Other, net	46	48
Net cash provided by operating activities	521	306
Cash flows from investing activities:		
Capital expenditures	(113)	(701)
Investments in unconsolidated affiliates, net	(38)	(53)
Proceeds from sale of assets	160	164
Net cash provided by (used in) investing activities	9	(590)
Cash flows from financing activities:		
Proceeds from long-term debt	2,926	5,763
Payment of long-term debt	(3,216)	(4,296)
Proceeds from issuance of common units by DCP Partners, net of offering costs	—	31
Repayment of commercial paper, net	—	(1,012)
Distributions paid to noncontrolling interests	(218)	(217)
Payment of deferred financing costs	(10)	(4)
Net cash (used in) provided by financing activities	(518)	265
Net change in cash and cash equivalents	12	(19)
Cash and cash equivalents, beginning of period	3	27
Cash and cash equivalents, end of period	\$ 15	\$ 8

See Notes to Condensed Consolidated Financial Statements.

DCP MIDSTREAM, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)

	<u>Members' Equity</u>			<u>Total Equity</u>
	<u>Members' Interest</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Noncontrolling Interests</u>	
	(millions)			
Balance, January 1, 2016	\$ 4,691	\$ (4)	\$ 2,404	\$ 7,091
Net income	20	—	119	139
Dividends and distributions	—	—	(218)	(218)
Balance, September 30, 2016	<u>\$ 4,711</u>	<u>\$ (4)</u>	<u>\$ 2,305</u>	<u>\$ 7,012</u>
Balance, January 1, 2015	\$ 2,630	\$ (5)	\$ 2,578	\$ 5,203
Net (loss) income	(509)	—	36	(473)
Other comprehensive income	—	1	1	2
Dividends and distributions	—	—	(217)	(217)
Issuance of common units by DCP Partners, net of offering costs	3	—	28	31
Balance, September 30, 2015	<u>\$ 2,124</u>	<u>\$ (4)</u>	<u>\$ 2,426</u>	<u>\$ 4,546</u>

See Notes to Condensed Consolidated Financial Statements.

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended September 30, 2016 and 2015
(unaudited)

1. Description of Business and Basis of Presentation

DCP Midstream, LLC, with its consolidated subsidiaries, or us, we, our, or the Company, is a joint venture owned 50% by Phillips 66 and its affiliates, or Phillips 66, and 50% by Spectra Energy Corp and its affiliates, or Spectra Energy. We operate in the midstream natural gas industry and are engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas and producing, fractionating, transporting, storing and selling natural gas liquids, or NGLs, and recovering and selling condensate. Additionally, we generate revenues by trading and marketing natural gas and NGLs.

During the third quarter of 2016, Spectra Energy entered into an Agreement and Plan of Merger, or the Merger Agreement, with Enbridge Inc., or Enbridge, a Canadian corporation, and anticipates completing the proposed merger in the first quarter of 2017. The Merger Agreement provides that, upon closing of the proposed merger, Spectra Energy will continue its separate corporate existence as a wholly owned subsidiary of Enbridge. We do not anticipate that the change in ownership of Spectra Energy will have a material impact on our operations.

DCP Midstream Partners, LP, or DCP Partners, is a master limited partnership, of which we act as general partner. As of both September 30, 2016 and December 31, 2015, we owned an approximate 21% in DCP Partners including our limited partner and general partner interests. We also own incentive distribution rights that entitle us to receive an increasing share of available cash as pre-defined distribution targets are achieved. Our incentive distribution rights currently entitle us to receive the maximum share of 48% of incremental available cash generated by DCP Partners. As the general partner of DCP Partners, we have responsibility for its operations.

We are governed by a five-member board of directors, consisting of two voting members from each of Phillips 66 and Spectra Energy and our Chairman of the Board, President and Chief Executive Officer, a non-voting member. All decisions requiring the approval of our board of directors are made by simple majority vote of the board, but must include at least one vote from both a Phillips 66 and Spectra Energy board member. In the event the board cannot reach a majority decision, the decision is appealed to the Chief Executive Officers of both Phillips 66 and Spectra Energy.

These condensed consolidated financial statements reflect all adjustments, consisting only 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 notes normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed in 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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015.

The condensed consolidated financial statements have been prepared in conformity with GAAP. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and notes. Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates. These condensed consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries where we have the ability to exercise control and undivided interests in jointly owned assets. We also consolidate DCP Partners, a variable interest entity for which we are the primary beneficiary, and where the limited partners do not have substantive kick-out or participating rights. 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. Intercompany balances and transactions have been eliminated in consolidation.

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
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2. Recent 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 intend to adopt this ASU when it is effective for public entities, which is for interim and annual reporting periods beginning after December 15, 2017 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 statements of cash flows.

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. We intend to adopt this ASU when it is effective for public entities, which is 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.

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

FASB ASU 2015-02 “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” or ASU 2015-02 — In February 2015, the FASB issued ASU 2015-02, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The company adopted ASU 2015-02 in the first quarter of 2016. See Note 3, Variable Interest Entities.

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 intend to adopt this ASU when it is effective for public entities, which is for annual reporting periods beginning after December 15, 2017, with the option to adopt as early as December 15, 2016. We are currently evaluating the potential impact this standard will have on our condensed consolidated financial statements.

3. Variable Interest Entities

ASU 2015-02 amended the conditions used to evaluate whether an entity is a variable interest entity. Following this amendment, a limited partnership is considered a variable interest entity unless a simple majority of the limited partners have substantive kick-out or participating rights. Upon the adoption of ASU 2015-02 in 2016, DCP Partners is considered a variable interest entity because the limited partners do not have substantive kick-out or participating rights. We are the primary beneficiary of DCP Partners because we have the power to direct the significant activities and the obligation to receive the benefits or absorb the losses of those significant activities of DCP Partners. As such, we consolidate DCP Partners and recognize non-controlling interest. Prior to the adoption of ASU 2015-02, DCP Partners was not a variable interest entity, however, we consolidated DCP Partners under the voting interest model as we controlled the entity through our ownership and general partner interest, and the limited partners did not have substantive kick-out or participating rights.

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
Three and Nine Months Ended September 30, 2016 and 2015
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The following table represents amounts included in our condensed consolidated balance sheets attributable to our variable interest entity:

	September 30, 2016	December 31, 2015	Classification
	(millions)		
Assets/liabilities:			
Cash and cash equivalents	\$ 2	\$ 2	<i>Cash and cash equivalents</i>
Accounts receivable — trade	\$ 53	\$ 73	<i>Accounts receivable — trade</i>
Inventories	\$ 34	\$ 43	<i>Inventories</i>
Unrealized gains on derivative instruments	\$ 9	\$ 73	<i>Unrealized gains on derivative instruments</i>
Other current assets	\$ 2	\$ 2	<i>Other current assets</i>
Property, plant and equipment, net	\$ 3,284	\$ 3,476	<i>Property, plant and equipment, net</i>
Investments in unconsolidated affiliates	\$ 1,474	\$ 1,493	<i>Investments in unconsolidated affiliates</i>
Intangible assets, net	\$ 105	\$ 112	<i>Intangible assets, net</i>
Goodwill	\$ 72	\$ 72	<i>Goodwill</i>
Other long-term assets	\$ 13	\$ 9	<i>Other long-term assets</i>
Accounts payable — trade	\$ 76	\$ 98	<i>Accounts payable — trade</i>
Accounts payable — affiliates	\$ 3	\$ 4	<i>Accounts payable — affiliates</i>
Accrued interest	\$ 29	\$ 19	<i>Accrued interest</i>
Accrued taxes	\$ 28	\$ 12	<i>Accrued taxes</i>
Other current liabilities	\$ 26	\$ 34	<i>Other current liabilities</i>
Long-term debt	\$ 2,231	\$ 2,424	<i>Long-term debt</i>
Other long-term liabilities	\$ 47	\$ 47	<i>Deferred income taxes, other long-term liabilities</i>

The assets of DCP Partners are the property of DCP Partners and are not available to us for any other purpose, including as collateral for our debt securities and credit facilities with financial institutions (see Notes 11 and 14). DCP Partners' asset balances can only be used to settle its own obligations. The liabilities of DCP Partners do not represent additional claims against our general assets and the creditors or beneficial interest holders of DCP Partners do not have recourse to our general credit. Our maximum exposure to loss as a result of our involvement with DCP Partners includes our equity investment. During the three and nine months ended September 30, 2016 and 2015, we did not provide any financial support to DCP Partners that we were not contractually obligated to provide under the services agreement we have with DCP Partners, which requires DCP Partners to reimburse us for fees and other costs incurred by us on behalf of DCP Partners.

4. Dispositions

In May 2016, DCP Partners entered into a purchase and sale agreement with a third party to sell its 100% interests in its Northern Louisiana system, which primarily consisted of certain gas processing plants and gathering systems, for approximately \$160 million, subject to customary purchase price adjustments. This transaction closed on July 1, 2016, and we recognized a \$41 million gain on sale, net of goodwill, in our condensed consolidated statements of operations for the three and nine months ended September 30, 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
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5. Agreements and Transactions with Related Parties and Affiliates

Dividends and Distributions

DCP Partners considers the payment of a quarterly distribution to the holders of its common units, to the extent DCP Partners has sufficient cash from its operations after establishment of cash reserves and payment of fees and expenses, including payments to its general partner, a 100% owned subsidiary of ours. There is no guarantee, however, that DCP Partners will pay the minimum quarterly distribution on the units in any quarter. DCP Partners will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default exists, under its credit agreement. During each of the nine months ended September 30, 2016 and 2015, DCP Partners paid distributions of \$269 million to its limited partners of which we received \$57 million for our limited partner interests. Additionally, we received \$93 million for our general partner interest which includes our incentive distribution rights during each of the nine months ended September 30, 2016 and 2015. Distributions from DCP Partners eliminate in consolidation.

Phillips 66 and CPChem

We sell a portion of our NGLs to Phillips 66 and Chevron Phillips Chemical LLC, or CPChem. In addition, we purchase NGLs from CPChem. CPChem is owned 50% by Phillips 66, and is considered a related party. Approximately 27% of our NGL production was committed to Phillips 66 and CPChem as of September 30, 2016, the primary production commitment of which began a ratable wind down period in December 2014 and expires in January 2019. We anticipate continuing to purchase and sell commodities with Phillips 66 and CPChem in the ordinary course of business.

Spectra Energy

We purchase natural gas and other NGL products from, and provide gathering, transportation and other services to Spectra Energy. We anticipate continuing to purchase commodities and provide services to Spectra Energy in the ordinary course of business.

Unconsolidated Affiliates

We also 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.

The following table summarizes our transactions with related parties and affiliates:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(millions)			
Phillips 66 (including CPChem):				
Sales of natural gas and petroleum products to affiliates	\$ 237	\$ 165	\$ 633	\$ 555
Purchases of natural gas and petroleum products from affiliates	\$ 6	\$ —	\$ 12	\$ —
Operating and maintenance and general and administrative expenses	\$ 1	\$ 1	\$ 1	\$ 3
Spectra Energy:				
Purchases of natural gas and petroleum products from affiliates	\$ 7	\$ 13	\$ 25	\$ 38
Operating and maintenance and general and administrative expenses	\$ 1	\$ 2	\$ 3	\$ 4
Unconsolidated affiliates:				
Sales of natural gas and petroleum products to affiliates	\$ 12	\$ 27	\$ 29	\$ 58
Transportation, storage and processing	\$ —	\$ 1	\$ 3	\$ 2
Purchases of natural gas and petroleum products from affiliates	\$ 113	\$ 108	\$ 319	\$ 276

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
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We had balances with related parties and affiliates as follows:

	September 30, 2016	December 31, 2015
(millions)		
Phillips 66 (including CPChem):		
Accounts receivable	\$ 95	\$ 54
Accounts payable	\$ 2	\$ 3
Other assets	\$ 2	\$ 1
Spectra Energy:		
Accounts payable	\$ 2	\$ 4
Other assets	\$ 1	\$ 1
Unconsolidated affiliates:		
Accounts receivable	\$ 13	\$ 21
Accounts payable	\$ 39	\$ 33
Other assets	\$ 6	\$ 31

6. Inventories

Inventories were as follows:

	September 30, 2016	December 31, 2015
(millions)		
Natural gas	\$ 25	\$ 29
NGLs	25	22
Total inventories	<u>\$ 50</u>	<u>\$ 51</u>

7. Property, Plant and Equipment

Property, plant and equipment by classification were as follows:

	Depreciable Life	September 30, 2016	December 31, 2015
(millions)			
Gathering and transmission systems	20 - 50 years	\$ 8,560	\$ 8,815
Processing, storage and terminal facilities	35 - 60 years	5,128	5,102
Other	3 - 30 years	488	485
Construction work in progress		147	196
Property, plant and equipment		<u>14,323</u>	<u>14,598</u>
Accumulated depreciation		(5,210)	(5,170)
Property, plant and equipment, net		<u>\$ 9,113</u>	<u>\$ 9,428</u>

Interest capitalized on construction projects was less than \$1 million for both the three and nine months ended September 30, 2016. Interest capitalized on construction projects for the three and nine months ended September 30, 2015 was \$7 million and \$31 million, respectively.

Depreciation expense for the three and nine months ended September 30, 2016 was \$91 million and \$275 million, respectively. Depreciation expense for the three and nine months ended September 30, 2015 was \$89 million and \$264 million, respectively.

DCP MIDSTREAM, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — Continued
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8. Investments in Unconsolidated Affiliates

We had investments in the following unconsolidated affiliates accounted for using the equity method:

	Percentage Ownership	September 30, 2016	December 31, 2015
(millions)			
DCP Sand Hills Pipeline, LLC	66.67%	\$ 1,500	\$ 1,492
DCP Southern Hills Pipeline, LLC	66.67%	759	764
Discovery Producer Services, LLC	40.00%	389	405
Front Range Pipeline LLC	33.33%	167	170
Texas Express Pipeline LLC	10.00%	93	96
Panola Pipeline Company, LLC	15.00%	24	19
Mont Belvieu Enterprise Fractionator	12.50%	22	25
Mont Belvieu I Fractionation Facility	20.00%	10	11
Other unconsolidated affiliates	Various	7	10
Total investments in unconsolidated affiliates		<u>\$ 2,971</u>	<u>\$ 2,992</u>

Earnings from unconsolidated affiliates amounted to the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(millions)				
DCP Sand Hills Pipeline, LLC	\$ 29	\$ 15	\$ 85	\$ 40
Discovery Producer Services, LLC	21	21	53	33
DCP Southern Hills Pipeline, LLC	13	3	37	10
Front Range Pipeline LLC	5	5	14	13
Mont Belvieu Enterprise Fractionator	4	4	12	11
Mont Belvieu I Fractionation Facility	3	3	8	6
Texas Express Pipeline LLC	2	3	6	6
Panola Pipeline Company, LLC	1	—	2	—
Total earnings from unconsolidated affiliates	<u>\$ 78</u>	<u>\$ 54</u>	<u>\$ 217</u>	<u>\$ 119</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(millions)				
Income statement (a):				
Operating revenues	\$ 335	\$ 313	\$ 971	\$ 821
Operating expenses	\$ 136	\$ 132	\$ 390	\$ 399
Net income	\$ 199	\$ 182	\$ 576	\$ 422

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	September 30, 2016	December 31, 2015
	(millions)	
Balance sheet (a):		
Current assets	\$ 244	\$ 240
Long-term assets	5,295	5,224
Current liabilities	(155)	(167)
Long-term liabilities	(208)	(230)
Net assets	\$ 5,176	\$ 5,067

(a) In accordance with the Panola Pipeline Company, LLC, or Panola, joint venture agreement, earnings began to accrue to DCP Partners' interest on February 1, 2016. Accordingly, activity related to Panola is included in the above tables as of and for the three and nine months ended September 30, 2016.

9. Goodwill

The change in the carrying amount of goodwill was as follows:

	Nine Months Ended September 30,	
	2016	2015
	(millions)	
Balance, beginning of period	\$ 242	\$ 704
Impairment	—	(460)
Dispositions	(6)	(2)
Balance, end of period	\$ 236	\$ 242

We performed our annual goodwill assessment at the reporting unit level during the third quarter of 2016. As a result of our assessment, we concluded that the entire amount of goodwill disclosed on the consolidated balance sheet is recoverable. We primarily used a discounted cash flow analysis, supplemented by a market approach analysis, to perform the assessment. Key assumptions in the analysis include the discount rate, volume forecasts, terminal year multiples, and estimated future cash flows including an estimate of operating and general and administrative costs. In estimating cash flows, we incorporate current market information (including forecasted volumes and commodity prices), as well as historical and other factors.

Our impairment determinations involved significant assumptions and judgments, as discussed above. Differing assumptions regarding any of these inputs could have a significant effect on the various valuations. If actual results are not consistent with our assumptions and estimates, or our assumptions and estimates change due to new information, we may be exposed to goodwill impairment charges, which would be recognized in the period in which the carrying value exceeds fair value. If our forecast indicates lower commodity prices in future periods at a level and duration that results in producers curtailing or redirecting drilling in areas where we operate, it may adversely affect our estimate of future operating results, which could result in future impairment due to the potential impact on our operations and cash flows.

10. 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

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current conditions. These adjustments may include amounts to reflect counterparty credit quality, the effect of our own creditworthiness, the time value of money 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 12, Risk Management and Hedging Activities, Credit Risk and Financial Instruments.

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.

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A financial instrument's categorization within the hierarchy is based upon 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, costless commodity collars, crude oil or NGL swaps). The exchange traded instruments are generally executed on the NYMEX exchange 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 on line, 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.

Interest Rate Derivative Assets and Liabilities

We periodically use interest rate swap agreements as part of our overall capital strategy. These instruments effectively exchange a portion of our fixed-rate debt for floating rate debt or floating rate debt for fixed-rate debt. The swaps are generally priced based upon a London Interbank Offered Rate, or LIBOR, instrument with similar duration, adjusted by the credit spread between our company and the LIBOR instrument. Given that a portion of the swap value is derived from the credit spread, which may be observed by comparing similar assets in the market, these instruments are classified within Level 2. Default risk on either side of the swap transaction is also considered in the valuation. We record counterparty credit and entity valuation adjustments in the valuation of interest rate swaps; however, these reserves are not considered to be a significant input to the overall valuation.

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Benefits

We offer certain eligible executives the opportunity to participate in DCP Midstream LP's Non-Qualified Executive Deferred Compensation Plan, or the EDC Plan. All amounts contributed to and earned by the EDC Plan's investments are held in a trust account, which is managed by a third-party service provider. The trust account is invested in short-term money market securities and mutual funds. These investments are recorded at fair value, with any changes in fair value being recorded as a gain or loss in our condensed consolidated statements of operations. Given that the value of the short-term money market securities and mutual funds are publicly traded and for which market prices are readily available, these investments are classified within Level 1.

Nonfinancial Assets and Liabilities

We utilize fair value to perform impairment tests as required on our property, plant and equipment; goodwill; 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.

There were no assets measured at fair value on a non-recurring basis as of September 30, 2016. The following table presents the carrying value of assets measured at fair value on a non-recurring basis, by consolidated balance sheet caption and by valuation hierarchy, as of December 31, 2015:

	Net Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
		(millions)		
December 31, 2015:				
Property, plant and equipment	\$ 87	\$ —	\$ —	\$ 87
Intangible assets	36	—	—	36
Other assets	50	—	—	50
Total non-recurring assets at fair value	<u>\$ 173</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 173</u>

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The following table presents the financial instruments carried at fair value on a recurring basis, by condensed consolidated balance sheet caption and by valuation hierarchy, as described above:

	September 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(millions)							
Current assets:								
Commodity derivatives (a)	\$ 17	\$ 28	\$ 4	\$ 49	\$ 23	\$ 98	\$ 35	\$ 156
Short-term investments (b)	\$ 12	\$ —	\$ —	\$ 12	\$ 2	\$ —	\$ —	\$ 2
Long-term assets:								
Commodity derivatives (c)	\$ 2	\$ 4	\$ 2	\$ 8	\$ 3	\$ 12	\$ 4	\$ 19
Mutual funds (d)	\$ 5	\$ —	\$ —	\$ 5	\$ 8	\$ —	\$ —	\$ 8
Current liabilities:								
Commodity derivatives (e)	\$ (11)	\$ (24)	\$ (5)	\$ (40)	\$ (16)	\$ (30)	\$ (23)	\$ (69)
Long-term liabilities:								
Commodity derivatives (f)	\$ (2)	\$ —	\$ (1)	\$ (3)	\$ (1)	\$ (5)	\$ (6)	\$ (12)

- (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 other long-term assets in our condensed consolidated balance sheets.
- (e) Included in current unrealized losses on derivative instruments in our condensed consolidated balance sheets.
- (f) 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. Amounts transferred in and out of Level 1 and Level 2 are reflected at fair value as of the end of the period. During the three and nine months ended September 30, 2016 and 2015, 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 have reflected such items in the table below within the “Transfers into Level 3” and “Transfers out of Level 3” captions.

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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 rollforwards below, the gains or losses in the tables do not reflect the effect of our total risk management activities.

	Commodity Derivative Instruments			
	<u>Current Assets</u>	<u>Long-Term Assets</u>	<u>Current Liabilities</u>	<u>Long-Term Liabilities</u>
	(millions)			
Three Months Ended September 30, 2016 (a):				
Beginning balance	\$ 5	\$ 2	\$ (8)	\$ (2)
Net unrealized gains included in earnings (b)	2	—	—	1
Transfers out of Level 3 (c)	(2)	—	2	—
Settlements	(1)	—	1	—
Ending balance	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ (5)</u>	<u>\$ (1)</u>
Net unrealized gains on derivatives still held included in earnings (b)	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>
Three Months Ended September 30, 2015 (a):				
Beginning balance	\$ 91	\$ 3	\$ (16)	\$ (7)
Net unrealized gains (losses) included in earnings (b)	14	2	(9)	—
Transfers out of Level 3 (c)	(4)	—	—	—
Settlements	(37)	—	4	—
Ending balance	<u>\$ 64</u>	<u>\$ 5</u>	<u>\$ (21)</u>	<u>\$ (7)</u>
Net unrealized gains (losses) on derivatives still held included in earnings (b)	<u>\$ 10</u>	<u>\$ 2</u>	<u>\$ (9)</u>	<u>\$ —</u>
Nine Months Ended September 30, 2016 (a):				
Beginning balance	\$ 35	\$ 4	\$ (23)	\$ (6)
Net unrealized (losses) gains included in earnings (b)	(3)	(2)	12	5
Transfers out of Level 3 (c)	(2)	—	3	—
Settlements	(26)	—	3	—
Ending balance	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ (5)</u>	<u>\$ (1)</u>
Net unrealized gains (losses) on derivatives still held included in earnings (b)	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ 5</u>
Nine Months Ended September 30, 2015 (a):				
Beginning balance	\$ 23	\$ 3	\$ (45)	\$ (12)
Net unrealized (losses) gains included in earnings (b)	(68)	2	5	5
Transfers out of Level 3 (c)	(5)	—	9	—
Settlements	(5)	—	10	—
Novation (d)	119	—	—	—
Ending balance	<u>\$ 64</u>	<u>\$ 5</u>	<u>\$ (21)</u>	<u>\$ (7)</u>
Net unrealized (losses) gains on derivatives still held included in earnings (b)	<u>\$ (56)</u>	<u>\$ 2</u>	<u>\$ (18)</u>	<u>\$ 5</u>

(a) There were no purchases, issuances or sales of derivatives or transfers into Level 3 for the three and nine months ended September 30, 2016 and 2015.

(b) Represents the amount of total gains or losses for the period, included in trading and marketing gains, net, in our condensed consolidated statements of operations.

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

(d) As a result of the March 2015 novation of certain fixed price commodity derivatives, DCP Partners' position no longer eliminates in consolidation.

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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 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 these contracts.

Nine Months Ended September 30, 2016:				
Product Group	Fair Value (millions)	Forward Curve Range		
Assets:				
NGLs	\$ 6	\$0.23-\$1.10	Per gallon	
Liabilities:				
NGLs	\$ (6)	\$0.19-\$1.11	Per gallon	

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 relationship 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 applicable, and commodity non-trading derivatives are 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 applicable, 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 over-the-counter, or 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 and accounts payable 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 variable rate debt 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 determine the fair value of our fixed-rate debt based on quotes obtained from bond dealers. We classify the fair value

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of our outstanding debt balances within Level 2 of the fair value hierarchy. As of September 30, 2016 and December 31, 2015, the carrying value and fair value of our long-term debt were as follows:

	September 30, 2016		December 31, 2015	
	Carrying Value (a)	Fair Value	Carrying Value	Fair Value
	(millions)			
Total debt	\$ 5,413	\$ 5,367	\$ 5,669	\$ 4,754

(a) Excludes unamortized issuance costs.

11. Financing

	September 30, 2016	December 31, 2015
	(millions)	
DCP Midstream's debt securities:		
Senior notes:		
Issued February 2009, interest at 9.750% payable semiannually, due March 2019 (a)	\$ 450	\$ 450
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 August 2000, interest at 8.125% payable semiannually, due August 2030 (a)	300	300
Issued October 2006, interest at 6.450% payable semiannually, due November 2036	300	300
Issued September 2007, interest at 6.750% payable semiannually, due September 2037	450	450
Junior subordinated notes:		
Issued May 2013, interest at 5.850% payable semiannually, due May 2043	550	550
DCP Midstream's credit facilities with financial institutions:		
DCP Midstream's revolving credit agreement due May 2019	—	96
DCP Partners' debt securities:		
Senior notes:		
Issued November 2012, interest at 2.50% payable semiannually, due December 2017	500	500
Issued March 2014, interest at 2.70% payable semiannually, due April 2019	325	325
Issued March 2012, interest at 4.95% payable semiannually, due April 2022	350	350
Issued March 2013, interest at 3.875% payable semiannually, due March 2023	500	500
Issued March 2014, interest at 5.60% payable semiannually, due April 2044	400	400
DCP Partners' credit facilities with financial institutions:		
DCP Partners' revolving credit agreement, weighted-average variable interest rate of 1.80% and 1.57%, as of September 30, 2016 and December 31, 2015, respectively, due May 2019	179	375
Fair value adjustments related to interest rate swap fair value hedges (a)	25	26
Unamortized issuance costs	(38)	(35)
Unamortized discount	(16)	(18)
Total debt	\$ 5,375	\$ 5,669

(a) The swaps associated with this debt were previously terminated. The remaining long-term fair value of approximately \$25 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.

DCP Midstream's Debt Securities — The DCP Midstream debt securities mature and become payable on the respective due dates, and are not subject to any sinking fund provisions. The senior debt securities are senior unsecured obligations and the junior subordinated notes are unsecured and rank subordinate in right of payment to all of our existing and future senior debt. The DCP Midstream debt securities are not guaranteed by any of our subsidiaries and are therefore, structurally subordinated to all debt and other liabilities of our subsidiaries. The debt securities include an optional redemption whereby we may elect to redeem the notes, in

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whole or in part from time-to-time. 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.

DCP Midstream's Credit Facilities with Financial Institutions — In May 2016, we entered into a second amendment of the DCP Amended and Restated Revolving Credit Agreement, which extended the maturity date from March 2017 to May 2019 and reduced the total borrowing capacity from \$1.8 billion to \$700 million. Certain of our subsidiaries, other than DCP Partners, provide guarantees of borrowings under this facility. In addition, the facility is secured with a pledge of our personal property and ownership interests in certain subsidiaries, including our limited partner and general partner ownership interests in DCP Partners, as permitted under our bond indentures. The DCP Amended and Restated Revolving Credit Agreement may be used for working capital requirements and other general corporate purposes. Along with other restrictions, the terms of this facility only allows for payment of distributions, except for certain tax distributions related to the sale of assets, to Phillips 66 and Spectra if we have no outstanding borrowings and meet certain leverage and liquidity thresholds. As of September 30, 2016, we were not eligible to pay distributions to Phillips 66 and Spectra under the terms of the DCP Amended and Restated Revolving Credit Agreement.

As of September 30, 2016 and December 31, 2015, we had \$23 million and \$20 million in letters of credit outstanding under the facility, respectively. As of September 30, 2016, the available capacity under the DCP Midstream Amended and Restated Revolving Credit Agreement was \$677 million, net of letters of credit, all of which was available for general corporate purposes. Our borrowing capacity may be limited by financial covenants set forth in the DCP Amended and Restated Revolving Credit Agreement. Amounts borrowed under the DCP Amended and Restated Revolving Credit Agreement will not become due prior to the May 2019 maturity date, except in the case of default or non-compliance with certain requirements around the timing of extinguishing or refinancing our existing \$450 million 9.750% Senior Notes due March 2019.

Indebtedness under the DCP Amended and Restated Revolving Credit Agreement shall bear interest for the remainder of 2016 and through the compliance date for the fiscal quarter ending March 31, 2017 at either: (1) LIBOR, plus an applicable margin of 3.50%; or (2) (a) the base rate which shall be the higher of Mizuho Bank, LTD.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1% plus (b) an applicable margin of 2.50%. For the remainder of 2016 and through the compliance date for the fiscal quarter ending March 31, 2017, the facility incurs an annual commitment fee of 0.50% on the average daily undrawn portion of the revolving credit commitment. Beginning with the compliance date for the fiscal quarter ending March 31, 2017, indebtedness under the DCP Amended and Restated Revolving Credit Agreement shall bear interest at either: (1) LIBOR, plus an applicable margin ranging from 2.00% to 3.25% (determined by our ratio of consolidated net indebtedness to consolidated EBITDA); or (2) (a) the base rate which shall be the higher of Mizuho Bank, LTD.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1% plus (b) an applicable margin ranging from 1.00% to 2.25% (determined by our ratio of consolidated net indebtedness to consolidated EBITDA). Also beginning with the compliance date for the fiscal quarter ending March 31, 2017, the facility incurs an annual commitment fee ranging from 0.375% to 0.50% (determined by our ratio of consolidated net indebtedness to consolidated EBITDA) on the average daily undrawn portion of the revolving credit commitment.

The DCP Midstream Amended and Restated Revolving Credit Agreement requires us to maintain a consolidated secured leverage ratio (the ratio of consolidated secured indebtedness to consolidated EBITDA as defined) of not more than 2.50 to 1.00. We must also maintain a consolidated leverage ratio (the ratio of consolidated indebtedness to condensed consolidated EBITDA as defined) and a consolidated interest coverage ratio (the ratio of consolidated EBITDA to consolidated interest expense as defined) of not more than 5.00 to 1.00 and more than 1.25 to 1.00, respectively, through the fiscal quarter ending December 31, 2016. The definition of consolidated EBITDA includes an additional \$500 million for the consolidated leverage ratio calculation and \$150 million for the consolidated interest coverage ratio through the fiscal quarter ending December 31, 2016. After the fiscal quarter ending December 31, 2016, we must maintain a consolidated leverage ratio of no more than 6.00 to 1.00 for the fiscal quarter ending March 31, 2017 ramping down to no more than 5.00 to 1.00 for the fiscal quarter ending March 31, 2018 through the end of the agreement and a consolidated interest coverage ratio of no less than 2.00 to 1.00 for the fiscal quarter ending March 31, 2017 ramping up to no less than 2.50 to 1.00 for the fiscal quarter ending March 31, 2018 through the end of the agreement.

DCP Partners' Credit Facilities with Financial Institutions — In May 2014, DCP Partners entered into the DCP Partners Amended and Restated Credit Agreement, which has a total borrowing capacity of \$1.25 billion and is used for working capital requirements and other general partnership purposes including acquisitions. As of September 30, 2016 and December 31, 2015, DCP Partners had \$1 million of letters of credit issued and outstanding under the DCP Partners Amended and Restated Credit Agreement.

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As of September 30, 2016, the unused capacity under the DCP Partners Amended and Restated Credit Agreement was \$1,070 million, which is net of letters of credit. DCP Partners' borrowing capacity may be limited by financial covenants set forth in the DCP Partners Amended and Restated Credit Agreement. Except in the case of default, amounts borrowed under the DCP Partners Amended and Restated Credit Agreement will not become due prior to the May 2019 maturity date.

Indebtedness under the DCP Partners Amended and Restated Credit Agreement bears interest at either: (1) LIBOR, plus an applicable margin of 1.275% based on DCP Partners' current credit rating; or (2) (a) the base rate which shall be the higher of Wells Fargo Bank N.A.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1%, plus (b) an applicable margin of 0.275% based on DCP Partners' current credit rating. The DCP Partners Amended and Restated Credit Agreement incurs an annual facility fee of 0.225% based on DCP Partners' current credit rating. This fee is paid on drawn and undrawn portions of the DCP Partners Amended and Restated Credit Agreement.

The DCP Partners Amended and Restated Credit Agreement requires DCP Partners to maintain a leverage ratio (the ratio of DCP Partners' consolidated indebtedness to its consolidated EBITDA, in each case as defined) of not more than 5.0 to 1.0, and following consummation of qualifying acquisitions, not more than 5.5 to 1.0, on a temporary basis for three consecutive quarters, including the quarter in which such acquisition is consummated. Further, DCP Partners' cost of borrowing under the DCP Partners Amended and Restated Credit Agreement is determined by a ratings based pricing grid.

DCP Partners' Debt Securities — DCP Partners' debt securities are senior unsecured obligations, ranking equally in right of payment with other unsecured indebtedness, including indebtedness under the DCP Partners Amended and Restated Credit Agreement. DCP Partners is not required to make mandatory redemption or sinking fund payments with respect to any of these notes, and they are redeemable at a premium at DCP Partners' option. 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.

12. Risk Management and Hedging Activities, Credit Risk and Financial Instruments

Our day-to-day 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, or 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. Our 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

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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.

DCP Partners Commodity Cash Flow Hedges

In order for our storage facilities 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 DCP Partners' storage caverns, DCP Partners may execute a series of derivative financial instruments to mitigate a portion of the risk associated with the forecasted purchase of natural gas when DCP Partners brings the storage caverns to 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 DCP Partners' previously settled base gas cash flow hedges was in a loss position of \$6 million as of September 30, 2016.

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. DCP Partners is also exposed to the impact of market fluctuations in the prices of natural gas, NGLs and condensate and may enter into derivative financial instruments due to the same factors. Our and DCP Partners derivative financial instruments used to mitigate a portion of the risk of weakening natural gas, NGL and condensate prices extend through the second quarter of 2017 and the fourth quarter of 2017, respectively. The commodity derivative instruments used for our and DCP Partners' hedging programs are a combination of direct NGL product, crude oil and natural gas hedges. Due to the limited liquidity and tenor of the NGL derivative market, we and DCP Partners may use crude oil swaps to mitigate a portion of the commodity price risk exposure for NGLs. Historically, prices of NGLs have generally been related to crude oil prices; however, there are periods of time when NGL pricing may be at a greater discount to crude oil, resulting in additional exposure to NGL commodity prices. The relationship of NGLs to crude oil continues to be lower than historical relationships. When our crude oil swaps become short-term in nature, certain crude oil derivatives may be converted to NGL derivatives by entering into offsetting crude oil swaps while adding NGL swaps. 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 and DCP Partners' 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, 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.

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Interest Rate Risk

We enter into debt arrangements that have either fixed or floating rates, therefore we are exposed to market risks related to changes in interest rates. We periodically use interest rate swaps to convert our floating rate debt to fixed-rate debt or to convert our fixed-rate debt to floating rate debt. Our primary goals include: (1) maintaining an appropriate ratio of fixed-rate debt to floating-rate debt; (2) reducing volatility of earnings resulting from interest rate fluctuations; and (3) locking in attractive interest rates.

We previously had interest rate cash flow hedges and fair value hedges in place that were terminated. As the underlying transactions impact earnings, the remaining net loss deferred in AOCI relative to these cash flow hedges will be reclassified to interest expense, net through 2022 and 2030 and the remaining net loss included in long-term debt relative to these fair value hedges will be reclassified to interest expense, net through 2019, 2020 and 2030, the original maturity dates of the debt.

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 27% of our NGL production was committed to Phillips 66 and CPChem as of September 30, 2016, the primary production commitment of which began a ratable wind down period in December 2014 and expires in January 2019. 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 security for payment in a satisfactory form.

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 DCP Midstream Amended and Restated 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 or DCP Partners' credit rating is below investment grade.
- In some cases, our ISDA contracts contain cross-default provisions that could constitute a credit-risk related contingent feature. For example, if we were to fail to make a required interest or principal payment on a debt instrument, above a predefined threshold level, and after giving effect to any applicable notice or grace period as defined in the ISDA contracts, our ISDA counterparties may have the right to request early termination and net settlement of any outstanding derivative positions.

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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 September 30, 2016, 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 September 30, 2016, we have not been required to post additional collateral. Although our commodity derivative contracts that contain credit-risk related contingent features were in a net liability position as of September 30, 2016, the net liability position would be offset by contracts in a net asset position.

Collateral

As of September 30, 2016, we had cash deposits of \$12 million, included in other current assets 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 September 30, 2016, we held cash of \$3 million, included in other current liabilities in our condensed consolidated balance sheet, related to cash postings by third parties and letters of credit of \$45 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 in our 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 tables summarize the gross and net amounts of our derivative instruments:

	September 30, 2016		December 31, 2015		
	Gross Amounts of Assets and (Liabilities) Presented in the Balance Sheet	Net Amount	Gross Amounts of Assets and (Liabilities) Presented in the Balance Sheet	Amounts Not Offset in the Balance Sheet – Cash Collateral Received (a)	Net Amount
	(millions)				
Assets:					
Commodity derivative instruments	\$ 57	\$ 57	\$ 175	\$ (1)	\$ 174
Liabilities:					
Commodity derivative instruments	\$ (43)	\$ (43)	\$ (81)	\$ —	\$ (81)

(a) Included in other current liabilities in our condensed consolidated balance sheets.

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Summarized Derivative Information

The fair value of our derivative instruments that are designated as hedging instruments, those that are marked to market each period, and the location of each within our condensed consolidated balance sheets, by major category, is summarized below:

<u>Balance Sheet Line Item</u>	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>Balance Sheet Line Item</u>	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	(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	\$ 49	\$ 156	Unrealized losses on derivative instruments – current	\$ (40)	\$ (69)
Unrealized gains on derivative instruments – long-term	8	19	Unrealized losses on derivative instruments – long-term	(3)	(12)
	<u>\$ 57</u>	<u>\$ 175</u>		<u>\$ (43)</u>	<u>\$ (81)</u>

The following table summarizes the balance and activity within AOCI relative to our interest rate and commodity derivatives, net of noncontrolling interest, as of and for the three and nine months ended September 30, 2016:

	<u>Interest Rate</u> <u>Derivatives</u>	<u>Commodity</u> <u>Derivatives</u>	<u>Total</u>
	(millions)		
Net deferred losses in AOCI, beginning balance	\$ (1)	\$ (3)	\$ (4)
Net deferred losses in AOCI, ending balance	<u>\$ (1)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>
Deferred losses in AOCI expected to be reclassified into earnings over the next 12 months	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes the balance and activity within AOCI relative to our interest rate and commodity derivatives, net of noncontrolling interest, as of and for the three and nine months ended September 30, 2015:

	<u>Interest Rate</u> <u>Derivatives</u>	<u>Commodity</u> <u>Derivatives</u>	<u>Total</u>
	(millions)		
Net deferred losses in AOCI, beginning balance	\$ (2)	\$ (3)	\$ (5)
Losses reclassified from AOCI – effective portion (a)	1	—	1
Net deferred losses in AOCI, ending balance	<u>\$ (1)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>

(a) Included in interest expense, net in our condensed consolidated statements of operations.

For the three and nine months ended September 30, 2016 and 2015, no derivative gains or losses were recognized in trading and marketing gains, net and interest expense, net, respectively, in our condensed consolidated statements of operations attributable to the ineffective portion of our derivative instruments, as a result of exclusion from effectiveness testing or as a result of the discontinuance of cash flow hedges related to certain forecasted transactions that are not probable of occurring.

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Changes in value of derivative instruments, for which the hedge method of accounting has not been elected from one period to the next, are recorded in our condensed consolidated statements of operations. The following summarizes these amounts and the location within our condensed consolidated statements of operations that such amounts are reflected:

Commodity Derivatives: Statement of Operations Line Item	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(millions)			
Realized gains	\$ 6	\$ 55	\$ 90	\$ 1
Unrealized gains (losses)	9	10	(80)	82
Trading and marketing gains, net	<u>\$ 15</u>	<u>\$ 65</u>	<u>\$ 10</u>	<u>\$ 83</u>

The following tables represent, by commodity type, our net long or short derivative positions, as well as the number of outstanding contracts that are expected to partially or entirely settle in each respective year. To the extent that we have long dated derivative positions that span multiple calendar years, the contract will appear in more than one line item in the table below. Additionally, relative to the hedging of certain of our storage and/or transportation assets, we may execute basis transactions for natural gas, which may result in a net long/short position of zero. These tables also present our net long or short natural gas basis swap positions separately from our net long or short natural gas positions.

September 30, 2016

Year of Expiration	Crude Oil		Natural Gas		Natural Gas Liquids		Natural Gas Basis Swaps	
	Net Short Position (Bbls) (a)	Number of Contracts	Net Short Position (MMBtu) (b)	Number of Contracts	Net (Short) Long Position (Bbls) (a)	Number of Contracts	Net (Short) Long Position (MMBtu) (b)	Number of Contracts
2016	(380,000)	131	(5,915,500)	350	(10,018,903)	314 (c)	(512,500)	115
2017	(964,000)	54	(27,686,850)	171	(7,725,057)	190 (d)	6,515,000	37
2018	—	—	—	—	150,216	17	—	—
2019	(40,000)	2	—	—	(1,984)	1	—	—
2020	(50,000)	2	—	—	240,000	2	—	—

(a) Bbls represents barrels.

(b) MMBtu represents one million British thermal units.

(c) Includes 48 physical index based derivative contracts totaling (10,000,100) Bbls.

(d) Includes 7 physical index based derivative contracts totaling (5,780,000) Bbls.

September 30, 2015

Year of Expiration	Crude Oil		Natural Gas		Natural Gas Liquids		Natural Gas Basis Swaps	
	Net Short Position (Bbls)	Number of Contracts	Net Short Position (MMBtu)	Number of Contracts	Net Short Position (Bbls)	Number of Contracts	Net Long (Short) Position (MMBtu)	Number of Contracts
2015	(295,956)	192	(12,059,680)	280	(12,338,490)	319 (a)	1,410,000	119
2016	(1,895,672)	60	(15,039,414)	81	(7,098,409)	161 (b)	(1,502,500)	107
2017	(122,000)	16	(6,387,500)	6	(2,123,257)	33 (c)	3,150,000	3

(a) Includes 54 physical index based derivative contracts totaling (10,649,500) Bbls.

(b) Includes 8 physical index based derivative contracts totaling (6,445,000) Bbls.

(c) Includes 1 physical index based derivative contract totaling (2,700,000) Bbls.

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13. Commitments and Contingent Liabilities

Litigation — The midstream industry has seen a number of class action lawsuits involving royalty disputes, mismeasurement and misplayment allegations. We are currently named as defendants in some of these cases and customers have asserted individual audit claims related to mismeasurement and misplayment. Management believes we have meritorious defenses to these cases and, therefore, will continue to defend them vigorously. These claims, however, can be costly and time consuming to defend. We are also a party to various legal, administrative and regulatory proceedings that have arisen in the ordinary course of our business, including, from time to time, disputes with customers over various measurement and settlement issues.

Management currently believes that these matters, taken as a whole, and after consideration of amounts accrued, insurance coverage and other indemnification arrangements, will not have a material adverse effect upon our condensed consolidated results of operations, financial position or cash flows.

In January 2016, we reached a settlement with a large producer in the DJ basin and received a cash payment of \$89 million, a dedication of a portion of the producer's production in the DJ Basin under a life of lease agreement and a 15 year dedication of natural gas liquids from the producer and its affiliates to the Sand Hills pipeline in the Delaware basin of the Permian region. The cash consideration was received in February 2016, and we recorded other income, net of \$2 million in legal fees, in our condensed consolidated statement of operations for the nine months ended September 30, 2016.

General Insurance — Our insurance coverage is carried with third-party insurers and with an affiliate of Phillips 66. Our insurance coverage includes: (1) general liability insurance covering third-party exposures; (2) statutory workers' compensation insurance; (3) automobile liability insurance for all owned, non-owned and hired vehicles; (4) excess liability insurance above the established primary limits for general liability and automobile liability insurance; (5) property insurance, which covers the replacement value of real and personal property and includes business interruption; and (6) insurance covering our directors and officers for acts related to our business activities. All coverage is subject to certain limits and deductibles, the terms and conditions of which are common for companies with similar types of operations.

Environmental — The operation of pipelines, plants and other facilities for gathering, processing, compressing, transporting, or storing natural gas, and fractionating, transporting, gathering, processing and storing NGLs and other products is subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As an owner or operator of these facilities, we must comply with laws and regulations at the federal, state and in some cases local levels that relate to worker safety, air and water quality, solid and hazardous waste management and disposal, and other environmental matters. The cost of planning, designing, constructing and operating pipelines, plants, and other facilities incorporates compliance with environmental laws and regulations and safety standards. In addition, there is increasing focus, (i) from city, state and federal regulatory officials and through litigation, on hydraulic fracturing and the real or perceived environmental impacts of this technique, which indirectly presents some risk to our available supply of natural gas and the resulting supply of NGLs, (ii) from federal regulatory agencies regarding pipeline system safety which could impose additional regulatory burdens and increase the cost of our operations, and (iii) from state and federal regulatory officials regarding the emission of greenhouse gases which could impose regulatory burdens and increase the cost of our operations. Failure to comply with these various health, safety and environmental laws and regulations may trigger a variety of administrative, civil and potentially criminal enforcement measures, including citizen suits, which can include the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of injunctions or restrictions on operation. Management believes that, based on currently known information, compliance with these existing laws and regulations will not have a material adverse effect on our condensed consolidated results of operations, financial position or cash flows.

We make expenditures in connection with environmental matters as part of our normal operations. As of both September 30, 2016 and December 31, 2015, environmental liabilities included in our condensed consolidated balance sheets as other current liabilities was \$3 million. As of both September 30, 2016 and December 31, 2015, environmental liabilities included in our condensed consolidated balance sheets as other long-term liabilities was \$9 million.

14. Guarantees and Indemnifications

We periodically enter into agreements for the acquisition, contribution or divestiture of assets. These agreements contain indemnification provisions that may provide indemnity for environmental, tax, employment, outstanding litigation, breaches of

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representations, warranties and covenants, performance of DCP Partners or other liabilities related to the assets being acquired, contributed or divested. Claims may be made by third parties or DCP Partners under these indemnification agreements for various periods of time depending on the nature of the claim. The effective periods on these indemnification provisions generally have terms of one to 15 years, although some are longer. Our maximum potential exposure under these indemnification agreements can vary depending on the nature of the claim and the particular transaction. We are unable to estimate the total maximum potential amount of future payments under indemnification agreements due to several factors, including uncertainty as to whether claims will be made under these indemnities. We have issued guarantees and indemnifications for certain of our consolidated subsidiaries.

15. Restructuring costs

In April 2016, we announced an approximate 10 percent headcount reduction, which involved the elimination of certain operational and corporate positions, as part of our ongoing effort to create efficiencies, reduce costs and transform our business. As a result of this headcount reduction, we recorded one-time employee termination costs of approximately \$2 million and \$10 million, which are included in restructuring costs within total operating costs and expenses in our condensed consolidated statements of operations for the three and nine months ended September 30, 2016, respectively.

As of September 30, 2016, approximately \$1 million of the \$10 million restructuring charge incurred is included in other current liabilities and is expected to be paid out prior to December 31, 2016. Additionally, we expect to incur further severance costs of approximately \$1 million related to this phase of our restructuring plan. The severance costs estimate could change based on the number of employees that work through the required service period and the timing of those departures.

16. Supplemental Cash Flow Information

	Nine Months Ended September 30,	
	2016	2015
	(millions)	
Cash paid for interest, net of capitalized interest	\$ 248	\$ 224
Cash paid for income taxes, net of income tax refunds received	\$ 2	\$ 3
Non-cash investing and financing activities:		
Property, plant and equipment acquired with accrued liabilities	\$ 15	\$ 39
Other non-cash changes in property, plant and equipment	\$ 1	\$ (6)

17. Subsequent Events

We have evaluated subsequent events occurring through November 9, 2016, the date the condensed consolidated financial statements were issued.

On October 27, 2016, DCP Partners announced that the board of directors of DCP Partners' general partner declared a quarterly distribution of \$0.78 per unit, payable on November 14, 2016 to unitholders of record on November 8, 2016.