UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2019
or

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

For the transition period from to
Commission File Number: 001-32678

DCP MIDSTREAM, LP
(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Units Representing Limited Partner Interests	DCP	New York Stock Exchange
7.875% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units	DCP PRB	New York Stock Exchange
7.95% Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units	DCP PRC	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act of 1934, or the Act. Yes ☒ No☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of common units held by non-affiliates of the registrant on June 30, 2019, was approximately $2,650,723,000. The aggregate market value was computed by reference to the last sale price of the registrant’s common units on the New York Stock Exchange on June 30, 2019.

As of February 28, 2020, there were 208,329,928 common units representing limited partner interests outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

Explanatory Note

DCP Midstream, LP, together with its consolidated subsidiaries (the "Partnership", which may also be referred to as "we," "us" or "our") is filing this Amendment No. 1 (the "Amendment No. 1") to our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the Securities and Exchange Commission on February 21, 2020 (the "Original Form 10-K"), for the sole purpose of (i) including the inadvertently omitted footnote 4 and the first two paragraphs of footnote 5 to the notes to each of the respective financial statements of the Company's unconsolidated affiliates, DCP Sand Hills Pipeline, LLC ("Sand Hills") and DCP Southern Hills Pipeline, LLC ("Southern Hills"), and (ii) to correct the labeling of the row for Cost of transportation – affiliates and General and administrative expense – affiliates in the Summary of Transactions with Affiliates table included in footnote 6 to the Southern Hills financial statements, which were previously filed in Item 15. "Exhibits, Financial Statement Schedules" to the Original Form 10-K pursuant to Rule 3-09 of Regulation S-X. In accordance with Rule 3-09(b), the unmodified financial statements for Discovery Producer Services, LLC ("Discovery"), as well as the separate audited financial statements of Sand Hills and Southern Hills, are being filed as an amendment to the Form 10-K as Exhibits 99.1, 99.2, and 99.3, respectively, included in Part IV, Item 15 of this filing.

This Amendment also supplements Part IV, Item 15 of the Original Form 10-K to include the filing of Exhibit 23.4, the consent of Ernst & Young LLP on the financial statements of Discovery and Exhibit 23.5, the consent of Deloitte & Touche LLP on the financial statements of Sand Hills and Southern Hills. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by the Company's principal executive officer and principal financial officer are filed herewith as exhibits to this Amendment No. 1 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Except as otherwise expressly noted herein, this Amendment No. 1 does not modify or update in any way the financial position, results of operations, cash flows, or other disclosures in, the Original Form 10-K, nor does it reflect events occurring after the filing of the Original Form 10-K. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Form 10-K.

Item 15. ***Exhibits, Financial Statement Schedules***

(a) Financial Statement Schedules

Pursuant to Rule 3-09 of Regulation S-X, the following financial statement schedules are attached as exhibits to this Annual Report on Form 10-K/A:

Consolidated Financial Statements of Discovery Producer Services LLC

Consolidated Financial Statements of DCP Sand Hills Pipeline, LLC

Consolidated Financial Statements of DCP Southern Hills Pipeline, LLC

(b) Exhibits.

Exhibit No.	Description
23.4	Consent of Ernst & Young LLP on Consolidated Financial Statements of Discovery Producer Services LLC.
23.5	Consent of Deloitte & Touche LLP on Consolidated Financial Statements of DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	The financial statements of Discovery Producer Services LLC pursuant to Rule 3-09 of Regulation S-X.
99.2	The financial statements of DCP Sand Hills Pipeline, LLC pursuant to Rule 3-09 of Regulation S-X.
99.3	The financial statements of DCP Southern Hills Pipeline, LLC pursuant to rule 3-09 of Regulation S-X.
101	Cover Page formatted as Inline XBRL.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 6, 2020

DCP MIDSTREAM, LP

By: **DCP MIDSTREAM GP, LP,**
its General Partner

By: **DCP MIDSTREAM GP, LLC,**
its General Partner

By: /s/ Wouter T. van Kempen

Name: Wouter T. van Kempen

Title: President and Chief Executive Officer

(Principal Executive Officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-3 No. 333-182642) of DCP Midstream, LP (the “Partnership”),
2. Registration Statement (Form S-3 No. 333-219927) of the Partnership,
3. Registration Statement (Form S-3 No. 333-221419) of the Partnership,
4. Registration Statement (Form S-8 No. 333-142271) pertaining to the Partnership’s Long-Term Incentive Plan, and
5. Registration Statement (Form S-8 No. 333-211905) pertaining to the Partnership’s Long-Term Incentive Plan;

of our report dated February 14, 2020, with respect to the consolidated financial statements of Discovery Producer Services LLC, included in this Amendment to the Annual Report (Form 10-K/A) of the Partnership for the year ended December 31, 2019.

/s/ Ernst & Young LLP
Tulsa, Oklahoma
March 6, 2020

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of our reports dated February 7, 2020, relating to the financial statements of DCP Sand Hills Pipeline, LLC as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and the financial statements of DCP Southern Hills Pipeline, LLC as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, appearing in this Amendment No. 1 to the Annual Report on Form 10-K of DCP Midstream, LP for the year ended December 31, 2019:

- Registration Statement Nos. 333-142271 and 333-211905 on Form S-8 of DCP Midstream, LP, and
- Registration Statement Nos. 333-221419, 333-219927, and 333-182642 on Form S-3 of DCP Midstream, LP.

/s/ Deloitte & Touche LLP

Denver, Colorado
March 6, 2020

Exhibit 31.1

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Wouter T. van Kempen, certify that:

1. I have reviewed this annual report on Form 10-K/A of DCP Midstream, LP for the year ended December 31, 2019;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Wouter T. van Kempen

Wouter T. van Kempen
President and Chief Executive Officer
(Principal Executive Officer)
DCP Midstream GP, LLC, general partner of
DCP Midstream GP, LP, general partner of
DCP Midstream, LP

Exhibit 31.2

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Sean P. O'Brien, certify that:

1. I have reviewed this annual report on Form 10-K/A of DCP Midstream, LP for the year ended December 31, 2019;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Sean P. O'Brien

Sean P. O'Brien
Group Vice President and Chief Financial Officer
(Principal Financial Officer)
DCP Midstream GP, LLC, general partner of
DCP Midstream GP, LP, general partner of
DCP Midstream, LP

Exhibit 32.1

Certification of President and Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

The undersigned, the President and Chief Executive Officer of DCP Midstream GP, LLC, general partner of DCP Midstream GP, LP, general partner of DCP Midstream, LP (the "Partnership"), hereby certifies that, to his knowledge on the date hereof:

(a) the annual report on Form 10-K/A of the Partnership for the year ended December 31, 2019, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Wouter T. van Kempen

Wouter T. van Kempen
President and Chief Executive Officer
(Principal Executive Officer)
March 6, 2020

A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of Group Vice President and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

The undersigned, the Group Vice President and Chief Financial Officer of DCP Midstream GP, LLC, general partner of DCP Midstream GP, LP, general partner of DCP Midstream, LP (the “Partnership”), hereby certifies that, to his knowledge on the date hereof:

(a) the annual report on Form 10-K/A of the Partnership for the year ended December 31, 2019, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Sean P. O'Brien

Sean P. O'Brien
Group Vice President and Chief Financial Officer
(Principal Financial Officer)
March 6, 2020

A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

FINANCIAL STATEMENTS

Discovery Producer Services LLC

Years Ended December 31, 2019, 2018 and 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members and Management Committee of
Discovery Producer Services LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Discovery Producer Services LLC (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, members' capital and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue effective January 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002
Tulsa, Oklahoma
February 14, 2020

DISCOVERY PRODUCER SERVICES LLC
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS	**(In thousands)**	
Current assets:		
Cash and cash equivalents	$ 13,864	$ 18,187
Trade accounts receivable:		
Affiliate	11,943	11,142
Other	4,557	6,674
Prepaid insurance	2,908	2,607
Inventory	3,577	3,509
Total current assets	36,849	42,119
Property, plant and equipment, net	1,012,525	1,079,375
Right of use asset	3,353	—
Intangible assets, net	11,504	13,564
Total assets	$ 1,064,231	$ 1,135,058
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable:		
Affiliate	$ 224	$ 344
Other	13,126	17,595
Asset retirement obligations	—	505
Deferred revenue	14,070	17,968
Operating leases liabilities	207	—
Other current liabilities	216	224
Total current liabilities	27,843	36,636
Non Current liabilities		
Asset retirement obligations	128,123	136,684
Deferred revenue	66,771	61,559
Customer deposits	1,533	2,795
Operating leases liabilities	3,145	—
Commitments and contingent liabilities (Note 7)		
Members' capital		
Members' capital accounts	835,550	896,055
Other comprehensive income	1,266	1,329
Total members' capital	836,816	897,384
Total liabilities and members' capital	$ 1,064,231	$ 1,135,058

See accompanying notes to the financial statements.

DISCOVERY PRODUCER SERVICES LLC
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Revenues:			
Product sales:			
Affiliate	$ 40,814	$ 46,699	$ 165,525
Third-party	4,535	3,871	93
Transportation services			
Affiliate	14	—	—
Third-party	30,067	22,675	46,395
Gathering and processing services:			
Affiliate	1,834	1,005	687
Third-party	60,800	69,504	191,351
Commodity consideration	37,598	44,497	—
Other revenues	7,346	9,606	8,793
Total revenues	183,008	197,857	412,844
Costs and expenses:			
Product cost			
Affiliate	—	—	8,750
Third-party	42,486	47,819	126,610
Processing commodity expense:			
Affiliate	8,655	9,151	—
Third-party	10,068	6,894	—
Operating and maintenance expenses:			
Affiliate	9,284	9,610	9,510
Third-party	27,424	28,692	28,719
Depreciation, amortization and accretion	67,063	71,080	93,110
Taxes other than income	2,895	2,932	2,913
General and administrative expenses- affiliate	7,937	7,639	7,454
Other (income) expense, net	(1,482)	(24)	(6,553)
Total costs and expenses	174,330	183,793	270,513
Operating income	8,678	14,064	142,331
Interest income (expense)	(883)	(638)	177
Net income	7,795	13,426	142,508
Net loss from derivative instruments, including amounts reclassified into earnings	(63)	(64)	(63)
Comprehensive income	$ 7,732	$ 13,362	$ 142,445

See accompanying notes to the financial statements.

DISCOVERY PRODUCER SERVICES LLC
CONSOLIDATED STATEMENT OF MEMBERS' CAPITAL

	Williams Field Services Group, LLC	DCP Assets Holding, LP	Accumulated Other Comprehensive Income	Total
	(In thousands)			
Balance December 31, 2016	$ 610,362	$ 405,880	$ 1,456	$ 1,017,698
Contributions	834	556	—	1,390
Distributions	(127,266)	(84,844)	—	(212,110)
Net income	85,504	57,004	—	142,508
Other comprehensive loss	—	—	(63)	(63)
Balance December 31, 2017	$ 569,434	$ 378,596	$ 1,393	$ 949,423
Contributions	5,454	3,636	—	9,090
Distributions	(45,420)	(30,280)	—	(75,700)
Net income	8,056	5,370	—	13,426
Cumulative effect adjustments - Adoption of ASU 606	725	484	—	1,209
Other comprehensive loss	—	—	(64)	(64)
Balance December 31, 2018	$ 538,249	$ 357,806	$ 1,329	$ 897,384
Contributions	300	200	—	500
Distributions	(41,280)	(27,520)	—	(68,800)
Net income	4,677	3,118	—	7,795
Other comprehensive loss	—	—	(63)	(63)
Balance December 31, 2019	$ 501,946	$ 333,604	$ 1,266	$ 836,816

See accompanying notes to financial statements.

DISCOVERY PRODUCER SERVICES LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	**2018**	**2017**
		(In thousands)	
OPERATING ACTIVITIES:			
Net income	$ 7,795	$ 13,426	$ 142,508
Adjustments to reconcile cash provided by operations:			
Depreciation, amortization, and accretion	67,063	71,080	93,110
Loss on retirement of equipment	—	—	—
Other non-cash item	(1,485)	800	(6,556)
Cash provided (used) by changes in assets and liabilities:			
Trade accounts receivable	1,313	(567)	25,726
Prepaid insurance	(300)	280	37
Inventory	(68)	(126)	(199)
Accounts payable	(4,978)	1,504	6,221
Asset retirement obligation	(196)	(4,724)	(679)
Customer deposits	(1,250)	(696)	147
Other current liabilities	(20)	14	(50)
Deferred revenue	1,314	(11,443)	(30,452)
Net cash provided by operating activities	69,188	69,548	229,813
INVESTING ACTIVITIES:			
Property, plant and equipment - capital expenditures *	(5,211)	(7,578)	(7,390)
Net cash used by investing activities	(5,211)	(7,578)	(7,390)
FINANCING ACTIVITIES:			
Distributions to members	(68,800)	(75,700)	(212,110)
Capital contributions	500	9,090	1,390
Net cash used by financing activities	(68,300)	(66,610)	(210,720)
Increase (decrease) in cash and cash equivalents	(4,323)	(4,640)	11,703
Cash and cash equivalents beginning of period	18,187	22,827	11,124
Cash and cash equivalents end of period	$ 13,864	$ 18,187	$ 22,827
Supplemental Disclosures			
Non cash additions (retirements) to PP&E	$ —	$ —	$ 5,300
* Increase to property, plant and equipment	$ (5,600)	$ (6,302)	$ (8,300)
Changes in related accounts payable - affiliate, accounts payable, and construction retainage payable	389	(1,276)	910
Capital expenditures	$ (5,211)	$ (7,578)	$ (7,390)

See accompanying notes to financial statements.

DISCOVERY PRODUCER SERVICES LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Description of Business

Unless the context clearly indicates otherwise, references in this report to “we”, “our”, “us” or similar language refers to Discovery Producer Services LLC and its wholly-owned subsidiary, Discovery Gas Transmission LLC (DGT). We are a Delaware limited liability company formed on June 24, 1996 for the purpose of constructing and operating a cryogenic natural gas processing plant near Larose, Louisiana and a natural gas liquids fractionator near Paradis, Louisiana. DGT is a Delaware Limited Liability Company formed on June 24, 1996 for the purpose of constructing and operating an offshore natural gas deep water pipeline in the Gulf of Mexico which connects to our gas processing plant in Larose, Louisiana. We have since connected several laterals to the DGT pipeline to expand our presence in the Gulf of Mexico.

We are owned 60% by Williams Field Services Group, LLC (WFS) (a wholly-owned subsidiary of The Williams Companies, Inc. (WMB)) and 40% by DCP Assets Holding, LP (a wholly-owned subsidiary of DCP Midstream Partners, LP (DCP)). WFS is our operator. Herein, The Williams Companies, Inc., and WFS are collectively referred to as “Williams.” Williams and DCP are collectively referred to as “members”.

We evaluated our disclosure of subsequent events through February 14, 2020, the date our financial statements were issued.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements have been prepared based upon accounting principles generally accepted in the United States and include the accounts of the parent and our wholly-owned subsidiary, DGT. Intercompany accounts and transactions have been eliminated.

Accounting standards issued and adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 “Leases (Topic 842)” (ASU 2016-02). ASU 2016-02 establishes a comprehensive new lease accounting model. ASU 2016-02 modifies the definition of a lease, requires a dual approach to lease classification similar to prior lease accounting, and causes lessees to recognize operating leases on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset, with an exception for leases with a term of one year or less. Additional disclosures are required regarding the amount, timing, and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU 2018-01 “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842” (ASU 2018-01). Per ASU 2018-01, land easements and rights-of-way are required to be assessed under ASU 2016-02 to determine whether the arrangements are or contain a lease. ASU 2018-01 permits an entity to elect a transition practical expedient to not apply ASU 2016-02 to land easements that exist or expired before the effective date of ASU 2016-02 and that were not previously assessed under the previous lease guidance in Accounting Standards Codification (ASC) Topic 840 “Leases.”

In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. We prospectively adopted ASU 2016-02 effective January 1, 2019, and did not adjust prior periods as permitted by ASU 2018-11 (see Note 3 – Leases).

We completed our review of contracts to identify leases based on the modified definition of a lease and implemented changes to our internal controls to support management in the accounting for and disclosure of leasing activities upon adoption of ASU 2016-02. We implemented a financial lease accounting system to assist management in the accounting for leases upon adoption. The most significant changes to our financial statements as a result of adopting ASU 2016-02 relate to the recognition of a $3.8 million lease liability and offsetting right-of-use asset in our Consolidated Balance Sheet for operating leases. We also evaluated ASU 2016-02’s available practical expedients on adoption and have generally elected to adopt certain practical expedients, which includes the practical expedient to not separate lease and nonlease components by both lessees and lessors by class of underlying assets and the land easements practical expedient.

Accounting standards issued but not yet adopted

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (ASU 2016-13). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. The guidance also requires increased disclosures. ASU 2016-13 is effective for us for interim and annual periods beginning after December 15, 2019. We are adopting ASU 2016-13 effective January 1, 2020. We anticipate that ASU 2016-13 will primarily apply to our trade receivables. While we do not expect a significant financial impact, we have analyzed our historical credit loss experience and continue to develop and implement processes, procedures, and internal controls in order to make the necessary credit loss assessments and required disclosures upon adoption.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimates and assumptions include:

- Asset retirement obligations
- Depreciable asset lives
- Revenue recognition, including estimates utilized in recognition of deferred revenue

Cash and Cash Equivalents. The cash and cash equivalents balance include cash equivalents which are invested in funds with high-quality, short-term securities and instruments that are issued or guaranteed by the U.S. government. These securities have maturities of three months or less when acquired.

Trade Accounts Receivable. Trade accounts receivable are carried on a gross basis, with no discounting, less an allowance for doubtful accounts. We do not recognize an allowance for doubtful accounts at the time the revenue that generates the accounts receivable is recognized. We estimate the allowance for doubtful accounts based on existing economic conditions, the financial condition of the customers and the amount and age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted. There is no allowance for doubtful accounts as of December 31, 2019 and 2018.

Prepaid Insurance. Prepaid insurance represents the unamortized balance of insurance premiums. These payments are amortized on a straight-line basis over the policy term.

Gas Imbalances. In the course of providing transportation services to customers, we may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. This results in gas transportation imbalance receivables and payables. The imbalance is recovered or repaid in cash, based on market-based prices, or through the receipt or delivery of gas in the future. Imbalance receivables are valued based on the lower of the current market prices; or the weighted average cost of natural gas in the system. Imbalance payables are valued at current market prices. Settlement of imbalances requires an agreement between the pipelines and shippers as to the allocations of volumes to specific transportation contracts, and the timing of delivery of gas based on operational conditions. Pursuant to a settlement with our shippers issued by the Federal Energy Regulatory Commission (FERC) on February 5, 2008, if a cash-out refund is due and payable to a shipper during any year pursuant to our FERC Gas Tariff, the shipper will be deemed to have immediately assigned its right to the refund amount to us.

Inventory. Inventories primarily consist of materials and supplies, with a minor amount related to natural gas liquids. Inventories are stated at the lower of cost or net realized value.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. We base the carrying value of these assets on estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values. The natural gas and natural gas liquids maintained in the pipeline facilities necessary for their operation (line fill) are included in property, plant and equipment. Depreciation of property, plant and equipment is provided on a straight-line basis over the estimated useful lives of 25 to 35 years. Expenditures for maintenance and repairs are expensed as incurred. Expenditures that extend the useful lives of the assets or increase their functionality are capitalized. The cost of property, plant and equipment sold or retired and the related accumulated depreciation is removed from the accounts in the period of sale or disposition. Gains and losses on the disposal of property, plant and equipment are recorded in operating income.

We record an asset and a liability equal to the present value of each expected future asset retirement obligation (ARO). Measurements of AROs include, as a component of future expected costs, an estimate of the price that a third party would demand, and coup expect to receive, for bearing the uncertainties inherent in the obligations, sometimes referred to as market-risk premium. The ARO asset increases the carrying value of the underlying physical asset and is depreciated with the underlying physical asset. We measure changes in the liability due to passage of time by applying an interest method of allocation. This amount is recognized as an increase in the carrying amount of the liability and as corresponding accretion expense included in operating income.

Intangible Assets. Our intangible assets are primarily related to amounts we paid to another party to allow us to access and serve product being shipped on their pipeline. Our intangible assets are amortized on a straight-line basis over the period in which these assets contribute to our cash flows. We evaluate these assets for changes in the expected remaining useful lives and would reflect any changes prospectively through amortization over the revised remaining useful life.

Impairment of Long-Lived Assets. We evaluate long-lived assets for impairment when events or changes in circumstances indicate that, in our management's judgment, the carrying value of such assets may not be recoverable. When such a determination has been made, we compare our estimate of undiscounted future cash flows attributable to the assets to the carrying value of the assets to determine whether the carrying value is recoverable. If the carrying value is not recoverable, we determine the amount of the impairment recognized in the financial statements by estimating the fair value of the assets and recording a loss for the amount by which the carrying value exceeds the estimated fair value. There were no impairments recorded during 2019, 2018 and 2017.

Customer Deposits. We extend credit to customers in the normal course of business and perform ongoing credit evaluations of our customers. We may require cash deposit from our customers based on their overall creditworthiness. The dollars are recorded as a non -current liability on the consolidated balance sheet.

Income Taxes. For federal tax purposes, we have elected to be treated as a partnership with each member being separately taxed on its ratable share of our taxable income. This election, to be treated as a pass-through entity, also applies to our wholly owned subsidiary, DGT. Therefore, no income taxes or deferred income taxes are reflected in the consolidated financial statements.

Other Comprehensive loss. Amounts recorded in other comprehensive loss relate to cash flow hedges we entered into to hedge forecasted foreign currency-denominated payments for pipeline construction. We recorded the effective portion of changes in the fair value of those hedges in other comprehensive loss, and reclassify such amounts into income on a straight-line basis over the period that we are depreciating the assets to which the hedges related.

Revenue Recognition. Revenue for sales of products is recognized in the period of delivery, and revenues from the gathering, transportation, and processing of gas are recognized in the period the service is provided based on contractual terms and the related natural gas and liquid volumes. DGT is subject to FERC regulations, and accordingly, certain revenues collected may be subject to possible refunds upon final orders in pending cases. DGT records rate refund liabilities considering its and other third parties' regulatory proceedings, advice of counsel, estimated total exposure as discounted and risk weighted, and collection and other risks. There was no rate refund liability accrued at December 31, 2019 or 2018.

Customers for our service revenues are comprised of oil and natural gas producers. Williams is the primary customer for our sales of natural gas liquids.

A performance obligation is a promise in a contract to transfer a distinct good or service (or integrated package of goods or services) to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue, when, or as, the performance obligation is satisfied. A performance obligation is distinct if the service is separately identifiable from other items in the integrated package of services and if a customer can benefit from it on its own or with other resources that are readily available to the customer. An integrated package of services typically represents a single performance obligation if the services are contained within the same contract or within multiple contracts entered into in contemplation with one another that are highly interdependent or highly interrelated, meaning each of the services is significantly affected by one or more of the other services in the contract. Our service revenue contracts contain a series of distinct services, with the majority of our contracts having a single performance obligation that is satisfied over time as the customer simultaneously receives and consumes the benefits provided by our performance. Most of our product sales contracts have a single performance obligation with revenue recognized at a point in time when the products have been sold and delivered to the customer.

For our businesses, reimbursement and service contracts with customers are viewed together as providing the same commercial objective, as we have the ability to negotiate the mix of consideration between reimbursements and amounts billed over time. Accordingly, we generally recognize reimbursements of construction costs from customers on a gross basis as a contract liability separate from the associated costs included within property, plant, and equipment. The contract liability is recognized into service revenues as the underlying performance obligations are satisfied.

Gathering, Processing, and Transportation Services

Revenues from our businesses include contracts for natural gas gathering, processing, treating, compression, transportation, and other related services with contract terms that are generally long-term in nature and may extend up to the production life of the associated reservoir. As such, revenue is recognized at the daily completion of the integrated package of services as the integrated package represents a single performance obligation. Additionally, certain contracts in our businesses contain fixed or upfront payment terms that result in the deferral of revenues until such services have been performed or such capacity has been made available.

We generally earn a contractually stated fee per unit for the volume of product transported, gathered, or processed. The rate is generally fixed; however, certain contracts contain variable rates that are subject to change based on levels of throughput. For all of our contracts, we allocate the transaction price to each performance obligation based on the relative standalone selling price. The excess of consideration received over revenue recognized results in the deferral of those amounts until future periods based on a units of production or straight-line methodology.

Under keep-whole and percent-of-liquids processing contracts, we receive commodity consideration in the form of natural gas liquids (NGLs) and take title to the NGLs at the tailgate of the plant. We recognize such commodity consideration as service revenue based on the market value of the NGLs retained at the time the processing is provided. The current market value, as opposed to the market value at the contract inception date, is used due to a combination of factors, including the fact that the volume, mix, and market price of NGL consideration to be received is unknown at the time of contract execution and is not specified in our contracts with customers. Additionally, product sales revenue (discussed below) is recognized upon the sale of the NGLs to a third party based on the sales price at the time of sale. As a result, revenue is recognized both at the time the processing service is provided in Commodity consideration and at the time the NGLs retained as part of the processing service are sold in Product sales. The recognition of revenue related to commodity consideration has the impact of increasing the book value of NGL inventory, resulting in higher product cost at the time of sale. Given that most inventory is sold in the same period that it is generated, the impact of these transactions is expected to have little impact to operating income.

Product Sales

In the course of providing gathering and processing services to customers of our businesses, we may receive different quantities of natural gas from customers than the quantities delivered on behalf of those customers. The resulting imbalances are primarily settled through the purchase or sale of natural gas with each customer under terms provided for in our FERC tariffs or gathering and processing agreements. Revenue is recognized from the sale of natural gas upon settlement of imbalances.

In certain instances, we purchase NGLs, and natural gas from our oil and natural gas producer customers. In addition, we retain NGLs as consideration in certain processing arrangements, as discussed above in the Service Revenues section. We recognize revenue from the sale of these commodities when the products have been sold and delivered, except in certain instances where we have concluded that we are an agent in the arrangement, in which case we record such sales on a net basis. Our product sales contracts are primarily short-term contracts based on prevailing market rates at the time of the transaction.

Revenue recognition (subsequent to adoption of ASC606 on January 1,2018). Revenue for sales of products is recognized in the period of delivery, and revenues from the gathering, transportation, and processing of gas are recognized in the period the service is provided based on contractual terms and the related natural gas and liquid volumes. DGT is subject to FERC regulations, and accordingly, certain revenues collected may be subject to possible refunds upon final orders in pending cases. DGT records rate refund liabilities considering its and other third parties' regulatory proceedings, advice of counsel, estimated total exposure as discounted and risk weighted, and collection and other risks. There was no rate refund liability accrued at December 31, 2019 or 2018 We recognize revenue from the sale of these commodities when the products have been sold and delivered and concluded we are the principal in the arrangement and as such record the sales and cost of sales on a gross basis.

Note 3. Leases

We are a lessee through non-cancellable lease agreements for property and equipment used in our operations functions. We recognize a lease liability with an offsetting right-of-use asset in our Consolidated Balance Sheet for operating leases based on the present value of the future lease payments. As an accounting policy, we have elected to combine lease and non-lease components for all classes of leased assets in our calculation of the lease liability and the offsetting right-of-use asset.

Our lease agreements require both fixed and variable periodic payments, with initial terms averaging 22 years, with one having a term of up to 43 years. Payment provisions in certain of our lease agreements contain escalation factors which may be based on stated rates or a change in a published index at a future time. The amount by which a lease escalates based on the change in a published index, which is not known at lease commencement, is considered a variable payment and is not included in the present value of the future lease payments, which only includes those that are stated or can be calculated based on the lease agreement at lease commencement. In addition to the non-cancellable periods, many of our lease agreements provide for one or more extensions of the lease agreement for periods ranging from one year in length to an indefinite number of times following the specified contract term. Other lease agreements provide for extension terms that allow us to utilize the identified leased asset for an indefinite period of time so long as the asset continues to be utilized in our operations. In consideration of these renewal features, we assess the term of the lease agreements, which includes using judgment in the determination of which renewal periods and termination provisions, when at our sole election, will be reasonably certain of being exercised. Periods after the initial term or extension terms that allow for either party to the lease to cancel the lease are not considered in the assessment of the lease term. Additionally, we have elected to exclude leases with an original term of one year or less, including renewal periods, from the calculation of the lease liability and the offsetting right-of-use asset.

We used judgment in determining the discount rate upon which the present value of the future lease payments is determined. This rate is based on a collateralized interest rate corresponding to the term of the lease agreement using company, industry, and market information available.

	Twelve Months Ended December 31, 2019	
	(Thousands)	
Lease Cost:		
Operating lease cost	$	383
Variable lease cost		244
Total lease cost	$	627
Cash paid for amounts included in the measurement of operating lease	$	381

		2019
		(Thousands)
Other Information:		
Right-of-use assets	$	3,353
Operating lease liabilities:		
Current	$	207
Non Current liabilities	$	3,145
Weighted-average remaining lease term - operating leases (years)		16.15
Weighted-average discount rate - operating leases		7.09 %

As of December 31, 2019, the following table represents our operating lease maturities, including renewal provisions that we have assessed as being reasonably certain of exercise, for each of the years ended December 31:

		(Thousands)
2020	$	381
2021		381
2022		386
2023		386
2024		387
Thereafter		3,740
Total future lease payments	$	5,661
Less amount representing interest		2,309
Total obligations under operating leases	$	3,352

Total rent expense for 2018 and 2017 was $0.9 million and $1.4 million, respectively.

Note 4. Revenue Recognition

Contract Assets

The following table presents a reconciliation of our contract assets:

		2019		2018
		(Thousands)		
Balance at beginning of period (January 1)	$	—	$	800
Payments received and deferred		—		(435)
Impairment of contract asset		—		(365)
Balance at end of period (December 31)	$	—	$	—

Contract Liabilities

Our contract liabilities primarily consist of advance payments from construction reimbursements, prepayments, and other billings for which future services are to be provided under the contract. These amounts are deferred until recognized in revenue when the associated performance obligation has been satisfied, which is primarily based on a units of production methodology over the remaining contractual service periods, and are classified as current or noncurrent according to when such amounts are expected to be recognized.

Contracts requiring advance payments and the recognition of contract liabilities are evaluated to determine whether the advance payments provide us with a significant financing benefit. This determination is based on the combined effect of the expected length of time between when we transfer the promised good or service to the customer, when the customer pays for those goods or services, and the prevailing interest rates. We have assessed our contracts for significant financing components and determined that one contract contains a significant financing component. As a result, we recognize noncash interest expense based on the effective interest method and revenue (noncash) is recognized utilizing units of production over the life of the corresponding customer contract.

The following table presents a reconciliation of our contract liabilities:

	2019	2018
	(Thousands)	
Balance at beginning of period (January 1)	$ 79,527	$ 90,918
Payments received and deferred	24,506	9,422
Recognized in revenue	(23,192)	(20,813)
Balance at end of period (December 31)	$ 80,841	$ 79,527

The following table presents the amount of the contract liabilities balance as of December 31, 2019, expected to be recognized as revenue as performance obligations are expected to be satisfied:

	(Thousands)
2020	25,835
2021	11,147
2022	9,055
2023	6,435
2024	4,649
2025	2,289
Thereafter	21,431
Total	$ 80,841

Remaining Performance Obligations

The following table presents the transaction price allocated to the remaining performance obligations under certain contracts as of December 31, 2019. These primarily include long-term contracts containing fixed payments associated with gathering services and offshore production handling. As a practical expedient permitted by ASC 606, this table excludes variable consideration as well as consideration in contracts that is recognized in revenue as billed. It also excludes consideration received prior to December 31, 2019, that will be recognized in future periods (see above for Contract Liabilities and the expected recognition of those amounts within revenue). As noted above, certain of our contracts contain evergreen and other renewal provisions for periods beyond the initial term of the contract. The remaining performance obligation amounts as of December 31, 2019, do not consider potential future performance obligations for which the renewal has not been exercised.

	(Thousands)
2020	15,820
2021	14,854
2022	11,216
2023	9,223
2024	6,253
2025	4,703
Thereafter	14,466
Total	$ 76,535

Note 5. Related Party Transactions

We have various business transactions with our members and subsidiaries and affiliates of our members. Revenues include sales to Williams of NGLs to which we take title, transportation, processing and excess natural gas. The related-party revenues associated with Williams in 2019, 2018, and 2017 were $42.7 million, $48.1 million, and $166.1 million, respectively. During 2019 and 2018, we paid Phillips 66 (an affiliate of DCP) an exchange fee of $0.7 million and $0.4 million. The amount is netted in product sales. Also, in 2018, we paid Phillips 66 $2 million for connection to their River Parish NGL system. We recorded the payment as an intangible asset. There were no other significant transactions with Phillips 66 in 2019, 2018, or 2017.

Processing commodity expense— affiliate includes natural gas purchases from Williams for fuel and shrink requirements.

We have no employees. Pipeline and plant operations are performed under operation and maintenance agreements with Williams. Most costs for materials, services and other charges are third-party charges and are invoiced directly to us. Operating and maintenance expenses— affiliate includes the following:

- Direct payroll and employee benefit costs incurred on our behalf by Williams;
- Transportation expense under a transportation agreement for pipeline capacity (five-year extension from 2020 to 2025) from Texas Eastern Transmission, LP (an affiliate of DCP) for $1.1 million in each of 2019, 2018 and 2017; and
- Storage expense under a 20-year agreement to store parts, tools and equipment in a warehouse owned by Williams PERK, LLC (an affiliate of WFS) through 2033 for $0.3 million in each of 2019, 2018 and 2017.

General and administrative expenses — affiliate includes a monthly operation and management fee paid to Williams to cover the cost of accounting services, computer systems and management services provided to us.

We also pay Williams a project management fee to cover the cost of managing capital projects. This fee is determined on a project by project basis and is capitalized as part of the construction costs. A summary of the payroll costs and project fees charged to us by Williams and capitalized are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Capitalized labor	$ 205	$ 321	$ 464
Capitalized fee	294	203	179
Balance at December 31	$ 499	$ 524	$ 643

All our trade accounts receivable relates to revenues from contracts with customers.

Note 6. Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at December 31, 2019 and 2018:

	Years Ended December 31,		Estimated Depreciable Lives
	2019	2018	
	(In thousands)		
Property, plant, and equipment:			
Pipelines	$ 1,107,479	$ 1,110,217	25 - 35 years
Plant and other equipment	539,104	547,654	25 - 35 years
Buildings	31,521	31,521	25 - 35 years
Land and land rights	9,376	8,673	0 - 35 years
Construction work in progress	1,952	1,565	
Total property, plant, and equipment	1,689,432	1,699,630	
Less accumulated depreciation	676,907	620,255	
Net property, plant, and equipment	$ 1,012,525	$ 1,079,375	

Depreciation expense in 2019, 2018 and 2017 was $57.4 million, $61.7 million and $83.5 million, respectively.

Commitments for construction and acquisition of property, plant and equipment totaled $1.5 million at December 31, 2019.

Our asset retirement obligations relate primarily to our offshore platforms and pipelines and our onshore processing and fractionation facilities. At the end of the useful life of each respective asset, we are legally or contractually obligated to dismantle the offshore platforms, properly abandon the offshore pipelines, remove the onshore facilities and related surface equipment and restore the surface of the property.

A rollforward of our asset retirement obligation for 2019 and 2018 is presented below:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Balance at January 1	$ 137,189	$ 122,080
Accretion expense	7,341	7,231
Estimate revisions	(16,212)	12,602
New obligation incurred	—	—
Settlements	(196)	(4,724)
Balance at December 31	$ 128,122	$ 137,189

Note 7. Intangible Assets

Gross intangible assets at December 31, 2019 and 2018 were $23.6 million and $23.3 million, respectively. Accumulated amortization at December 31, 2019 and 2018 was $12.1 million and $9.8 million, respectively. The amortization expense was $2.3 million for 2019, $2.1 million for 2018, and $2.0 million for 2017. The intangible assets are being amortized on a straight-line basis with lives between 10 and 20 years. Amortization expense is expected to be $2.4 million annually for the next four years and $1.0 million in 2025.

Note 8. Commitments and Contingent Liabilities

Environmental Matters. We are subject to extensive federal, state, and local environmental laws and regulations which affect our operations related to the construction and operation of our facilities. Appropriate governmental authorities may enforce these laws and regulations with a variety of civil and criminal enforcement measures, including monetary penalties, assessment and remediation requirements and injunctions as to future compliance. We have not been notified and are not currently aware of any material noncompliance under the various environmental laws and regulations.

Other. We are party to various other claims, legal actions and complaints arising in the ordinary course of business. We estimate that, for all matters for which we are able to reasonably estimate a range of loss, our aggregate reasonably possible losses beyond amounts accrued for all of our contingent liabilities are immaterial to our expected future annual results of operations, liquidity, and financial position. These calculations have been made without consideration of any potential recovery from third parties. There are no significant matters for which we are unable to reasonably estimate a range of possible loss.

Note 9. Financial Instruments, Concentrations of Credit Risk and Major Customers

Fair Value of Financial Instruments

Fair value is defined as the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded or disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair values. These categories include (in descending order of priority): Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, customer deposits, other current assets and other current liabilities approximate their fair value because of their short-term nature, and each represents a Level 1 estimate.

Concentrations of Credit Risk

Our cash equivalents balance is primarily invested in funds with high-quality, short-term securities and instruments that are issued or guaranteed by the U.S. government.

At December 31, 2019, substantially all of customer accounts receivable result from product sales and gathering from our largest customers. This concentration may impact our overall credit risk either positively or negatively, in that the entity may be similarly affected by industry-wide changes in economic or other conditions. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly. Our credit policy and the relatively short duration of receivables mitigate the risk of uncollected receivables. We incurred no gain/loss on receivables in 2019, 2018 or 2017.

Major Customers

Williams accounted for $42.7 million (23.3%), $48.1 million (24.3%), and $166.1 million (40%), respectively, of our total revenues in 2019, 2018, and 2017. These revenues were for the sale of NGLs purchased from or received as compensation under processing contracts with third-party producers, transportation and processing.

During 2019, Occidental Petroleum Corporation (formerly Anadarko) accounted for $24.6 million (13.5%), and Walter Oil and Gas Corporation accounted for $18.8 million (10.3%) of our total revenues. These revenues were for gathering, processing, transportation, commodity consideration and other services.

During 2018, Occidental Petroleum Corporation accounted for $40.9 million (20.6%) of our total revenues. These revenues were for gathering, processing, transportation, commodity consideration and other services.

During 2017, ExxonMobil Corporation accounted for $68.6 million (16.6%), and Occidental Petroleum Corporation accounted for $53.7 million (13.0%), of our total revenues. These revenues were for gathering, processing, transportation and other services.

Note 10. Rate and Regulatory Matters

Rate and Regulatory Matters. Pursuant to the terms of its FERC Gas Tariff, DGT has the right to file, on an annual basis, a request with the FERC for a fuel lost-and-unaccounted-for gas (FL&U) percentage ("the retention rate") to be assessed shippers for the upcoming fiscal year beginning July 1. On May 31, 2018, DGT filed to increase the FL&U retention rate from 0.0% (zero percent) to 0.13% per dekatherm (Dt) to be assessed on gas received into DGT's system commencing July 1, 2018. The revised retention rate was based upon the actual fuel use, system loss and gas retained in 2017. On June 22, 2018, the FERC issued a letter order approving the requested retention rate revision. The actual system loss for 2018 was $1.5 million with FL&U recovered of $0.3 million. On May 21, 2019, DGT filed to increase the FL&U retention rate from 0.13% to 0.41% per Dt to be assessed on gas received into DGT's system commencing July 1, 2019. The revised retention rate was based upon the actual fuel use, system loss and gas retained in 2018. On June 10, 2019, the FERC issued a letter order approving the requested retention rate. The actual system gains for 2019 was $0.1 million with FL&U recovered of $1 million. The above amounts were recognized in each year's respective operating income.

On November 15, 2018, DGT filed its annual HMRE surcharge adjustment to maintain the currently effective $0.0500 per Dt surcharge for 2019. The filing reflected an additional $0.13 million of qualifying HMRE costs to be recovered by the surcharge. As reflected in the application, the total HMRE amount to be recovered over future periods was $9.4 million as of September 30, 2018. The Commission approved the requested surcharge by letter order dated December 11, 2018.

On November 14, 2019, DGT filed its annual HMRE surcharge adjustment to reduce its then current rate from $0.0500 per Dt to $0.0330 per Dt effective January 1, 2020. The filing reflected an additional $3.0 million of qualifying HMRE costs to be recovered by the surcharge. As reflected in the application, the total HMRE amount to be recovered over future periods was $5.3 million as of September 30, 2019. The Commission approved the requested surcharge by letter order dated December 20, 2019.

Note 11. Subsequent Events

During January 2020, we made distributions to our partners totaling $5.0 million.

DCP SAND HILLS PIPELINE, LLC

Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Members of DCP Sand Hills Pipeline, LLC

We have audited the accompanying consolidated financial statements of DCP Sand Hills Pipeline, LLC and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DCP Sand Hills Pipeline, LLC and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3 to the consolidated financial statements, in 2018, the Company adopted new accounting guidance related to recognition of revenue from contracts with customers. Our opinion is not modified with respect to this matter.

As discussed in Notes 5 and 6 to the consolidated financial statements, the Company has significant transactions with related parties. Our opinion is not modified with respect to this matter.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 7, 2020

DCP SAND HILLS PIPELINE, LLC
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12.5	$ 16.6
Accounts receivable:		
Affiliates	46.7	40.0
Trade and other	8.0	15.1
Other current assets	—	0.1
Total current assets	67.2	71.8
Property, plant and equipment, net	1,790.0	1,815.6
Other long-term assets	6.3	6.5
Total assets	$ 1,863.5	$ 1,893.9
LIABILITIES AND MEMBERS’ EQUITY		
Current liabilities:		
Accounts payable:		
Trade and other	$ 2.3	$ 12.7
Affiliates	7.7	6.2
Accrued taxes	21.7	14.8
Accrued capital expenditures	0.8	9.7
Accrued liabilities and other	8.1	6.0
Total current liabilities	40.6	49.4
Contract liabilities - affiliates	30.7	34.0
Other long-term liabilities	6.3	5.3
Total liabilities	77.6	88.7
Commitments and contingent liabilities		
Total members’ equity	1,785.9	1,805.2
Total liabilities and members’ equity	$ 1,863.5	$ 1,893.9

See Notes to Consolidated Financial Statements.

DCP SAND HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
Operating revenues:			
Transportation - affiliates	$ 514.4	$ 389.0	$ 246.4
Transportation	93.0	91.4	85.6
Total operating revenues	607.4	480.4	332.0
Operating costs and expenses:			
Cost of transportation - affiliates	4.0	6.0	3.6
Cost of transportation	3.0	3.0	3.0
Operating and maintenance expense	96.4	68.8	42.9
Depreciation expense	41.3	36.4	30.1
General and administrative expense - affiliates	5.2	5.2	5.2
General and administrative expense	3.6	2.6	2.5
Total operating costs and expenses	153.5	122.0	87.3
Operating income	453.9	358.4	244.7
Interest income	1.0	1.0	0.4
Income tax expense	(3.3)	(2.7)	(1.7)
Net income	$ 451.6	$ 356.7	$ 243.4

See Notes to Consolidated Financial Statements.

DCP SAND HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	DCP Sand Holding, LLC	DCP Pipeline Holding LLC	Phillips 66 Sand Hills LLC	Total Members' Equity
	(millions)			
Balance, January 1, 2017	$ 445.2	$ 445.0	$ 445.2	$ 1,335.4
Contributions from members	73.3	73.2	73.3	219.8
Distributions to members	(84.3)	(84.4)	(84.3)	(253.0)
Net income	81.1	81.2	81.1	243.4
Balance, December 31, 2017	515.3	515.0	515.3	1,545.6
Contributions from members	27.1	155.6	91.4	274.1
Distributions to members	(24.4)	(227.7)	(126.1)	(378.2)
Cumulative effect adjustment	2.3	2.4	2.3	7.0
Transfer of interest in DCP Sand Hills Pipeline, LLC (see Note 1)	(555.7)	555.7	—	—
Net income	35.4	202.5	118.8	356.7
Balance, December 31, 2018	—	1,203.5	601.7	1,805.2
Contributions from members	—	7.0	3.5	10.5
Distributions to members	—	(320.9)	(160.5)	(481.4)
Net income	—	301.1	150.5	451.6
Balance, December 31, 2019	$ —	$ 1,190.7	$ 595.2	$ 1,785.9

See Notes to Consolidated Financial Statements.

DCP SAND HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
OPERATING ACTIVITIES:			
Net income	$ 451.6	$ 356.7	$ 243.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	41.3	36.4	30.1
Other	(1.3)	(1.9)	0.7
Change in operating assets and liabilities:			
Accounts receivable	(0.1)	(21.2)	(13.3)
Accounts payable	(1.3)	(0.6)	2.9
Deferred revenues	—	(3.5)	(11.2)
Other current liabilities	8.0	9.0	1.0
Other long-term assets	0.4	(2.9)	0.4
Other long-term liabilities	—	2.0	(0.1)
Net cash provided by operating activities	498.6	374.0	253.9
INVESTING ACTIVITIES:			
Capital expenditures	(31.8)	(270.8)	(211.2)
Net cash used in investing activities	(31.8)	(270.8)	(211.2)
FINANCING ACTIVITIES:			
Contributions from members	10.5	274.1	219.8
Distributions to members	(481.4)	(378.2)	(253.0)
Net cash used in financing activities	(470.9)	(104.1)	(33.2)
Net change in cash and cash equivalents	(4.1)	(0.9)	9.5
Cash and cash equivalents, beginning of period	16.6	17.5	8.0
Cash and cash equivalents, end of period	$ 12.5	$ 16.6	$ 17.5

See Notes to Consolidated Financial Statements.

1. Description of Business and Basis of Presentation

DCP Sand Hills Pipeline, LLC, with its consolidated subsidiary, or Sand Hills, we, our, the Company, or us, is engaged in the business of transporting natural gas liquids, or NGLs. The Sand Hills pipeline is a common carrier pipeline which provides takeaway service from plants in the Permian and the Eagle Ford basins to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu, Texas market hub. The Sand Hills pipeline was placed into service in June 2013.

We are a limited liability company owned 66.665% by DCP Pipeline Holding LLC, a 100% owned subsidiary of DCP Midstream, LP, or DCP Midstream, and 33.335% by Phillips 66 Sand Hills LLC, a 100% owned subsidiary of Phillips 66 Partners LP, or Phillips 66 Partners. On May 1, 2018, DCP Sand Holding, LLC, a 100% owned subsidiary of DCP Midstream, contributed its 33.335% ownership interest in the Company to DCP Pipeline Holding LLC. Previously, we were owned 33.330% by DCP Pipeline Holding LLC, 33.335% by DCP Sand Holding, LLC, and 33.335% by Phillips 66 Sand Hills LLC. Throughout these consolidated financial statements, DCP Midstream and Phillips 66 Partners will together be referenced as the members. DCP Midstream is the operator of the Sand Hills pipeline.

The Company allocates revenues, costs, and expenses in accordance with the terms of the Second Amended and Restated LLC Agreement, which became effective on September 3, 2013, or the LLC Agreement, to each of the members based on each member’s ownership interest. Under terms of the LLC Agreement, the members are required to fund capital calls necessary to fund the capital requirements of the Company, including capital expansion and working capital requirements. Under the terms of the LLC Agreement, cash calls and cash distributions from operations are allocated to the members based upon each member’s respective ownership interest.

The consolidated financial statements include the accounts of Sand Hills and its 100% owned subsidiary and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Intercompany balances and transactions have been eliminated. Transactions between us and the members have been identified in the consolidated financial statements as transactions between affiliates.

2. Summary of Significant Accounting Policies

Use of Estimates - Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Although these estimates are based on management’s best available knowledge of current and expected future events, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all cash balances and investments in highly liquid financial instruments purchased with an original stated maturity of 90 days or less and temporary investments of cash in short-term money market securities.

Distributions - Under the terms of the LLC Agreement, we are required to make quarterly distributions to the members based on Available Cash, as the term is defined in the LLC Agreement. Available Cash distributions are paid pursuant to the members’ respective ownership percentages at the date the distributions are due.

Estimated Fair Value of Financial Instruments - The fair value of cash and cash equivalents, accounts receivable and accounts payable included in the consolidated balance sheets are not materially different from their carrying amounts because of the short-term nature of these instruments. We may invest available cash balances in short-term money market securities. As of December 31, 2019 and 2018, we invested $12.5 million and $16.6 million, respectively, in short-term money market securities
which are included in cash and cash equivalents in our consolidated balance sheets. The short-term money market securities are publicly traded and market prices are readily available, these investments are considered Level 1 fair value measurements.

Concentration of Credit Risk - Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and accounts receivable. We extend credit to customers and other parties in the normal course of business and have established various procedures to manage our credit exposure, including initial credit approvals, credit limits and rights of offset.

Property, Plant and Equipment - Property, plant and equipment are recorded at historical cost. The cost of maintenance and repairs, which are not significant improvements, are expensed when incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Long-Lived Assets - We periodically evaluate whether the carrying value of long-lived assets has been impaired when circumstances indicate the carrying value of those assets may not be recoverable. This evaluation is based on undiscounted cash flow projections. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. We consider various factors when determining if these assets should be evaluated for impairment, including but not limited to:

- a significant adverse change in legal factors or business climate;
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- significant adverse changes in the extent or manner in which an asset is used, or in its physical condition;
- a significant adverse change in the market value of an asset; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of before the end of its estimated useful life.

If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset’s carrying value over its fair value. We assess the fair value of long-lived assets using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third party comparable sales and discounted cash flow models. Significant changes in market conditions resulting from events such as the condition of an asset or a change in management’s intent to utilize the asset would generally require management to reassess the cash flows related to the long-lived assets.

Revenue Recognition - Our operating revenues are primarily derived from services related to transportation of NGLs. Revenues from transportation agreements are recognized based on contracted volumes transported in the period the services are provided. Our contracts generally have terms that extend beyond one year, and are recognized over time. The performance obligation for most of our contracts encompasses a series of distinct services performed on discrete daily quantities of NGLs for purposes of allocating variable consideration and recognizing revenue while the customer simultaneously receives and consumes the benefits of the services provided. Revenue is recognized over time consistent with the transfer of goods or services over time to the customer based on daily volumes delivered. Consideration is generally variable, and the transaction price cannot be determined at the inception of the contract, because the volume of NGLs for which the service is provided is only specified on a daily or monthly basis. The transaction price is determined at the time the service is provided as the uncertainty is resolved.

Contract liabilities - We have contracts with customers whereby the customer reimburses us for costs we incur to construct certain connections to our operating assets. These agreements are typically entered into in conjunction with transportation agreements with customers. Prior to January 1, 2018 we accounted for these arrangements as a reduction to the cost basis of our long-lived assets which were amortized as a reduction to depreciation expense over the estimated useful life of the related assets. Under the accounting guidance currently effective we record these payments as deferred revenue which will be amortized into revenue over the expected contract term.

Significant Customers - There was no third party customer that accounted for more than 10% of total operating revenue for the year ended December 31, 2019 and 2018 and one third party customer that accounted for more than 10% of total operating revenue for the year ended December 31, 2017. There were significant transactions with affiliates for each of the years ended December 31, 2019, 2018 and 2017. See Note 6, Summary of Transactions with Affiliates.

Environmental Expenditures - Environmental expenditures are expensed or capitalized as appropriate, depending upon the future economic benefit. Expenditures that relate to an existing condition caused by past operations and that do not generate current or future revenue are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated.

Income Taxes - We are structured as a limited liability company, which is a pass-through entity for federal income tax purposes. As a limited liability company, we do not pay federal income taxes. Instead, our income or loss for tax purposes is allocated to each of the members for inclusion in their respective tax returns. Consequently, no provision for federal income taxes has been reflected in these consolidated financial statements. We are subject to the Texas margin tax, which is treated as a state income tax. We follow the asset and liability method of accounting for state income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences between the consolidated financial statement carrying amounts and the tax basis of the assets and liabilities. For the years ended December 31, 2019, 2018 and 2017, deferred state income tax expense totaled $0.7 million, $0.5 million and $0.5 million, respectively. For the years ended December 31, 2019, 2018 and 2017, current state income tax expense totaled $2.6 million, $2.2 million and $1.2 million, respectively.

3. Recent Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU"), 2016-13 “Financial Instruments-Credit Losses (Topic 326),” or ASU 2016-13 - In June 2016, the FASB issued ASU 2016-13, which requires measuring all expected credit losses for financial instruments held at the reporting date based on historical experience and immediate recognition of management’s estimates of current expected credit losses. We adopted this ASU on January 1, 2020 and it did not have a material impact our consolidated financial statements.

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 adopted this ASU on January 1, 2019 using the modified retrospective approach without application to prior periods. We implemented the following practical expedients and policy elections permitted under the new standard: (a) the package of practical expedients allowing us to not reassess whether expired or existing contracts contain a lease, the lease classification for any expired or existing leases and the treatment of initial direct costs for any expired or existing leases, (b) the land easement practical expedient, allowing us to carry forward our current accounting treatment for land easements in existing agreements, (c) not recognizing lease assets or liabilities when lease terms are less than twelve months and (d) for agreements that contain both lease and non-lease components, the company combines these components together and accounting for them as a single lease for all asset types.

The cumulative effect of the changes made to our consolidated January 1, 2019 balance sheet for the adoption of Topic 842 did not have material impact on our consolidated balance sheet or consolidated statement of cash flows.

FASB ASU 2014-09 “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09 and related interpretations and amendments - In May 2014, the FASB issued ASU 2014-09, which supersedes the revenue recognition requirements of Accounting Standards Codification Topic 605 “Revenue Recognition.” We adopted this ASU on January 1, 2018 using the modified retrospective method. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We recognized the initial cumulative effect of applying this ASU as an adjustment to the 2018 opening balance of members’ equity.

The adjustment to member's equity represents the difference between amortizing deferred customer balances over the fixed asset useful life versus the estimated contract term. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of Topic 606 was as follows:

	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at December 31, 2018
		(millions)	
Balance sheet			
Assets			
Property, plant and equipment, net	$ 1,547.0	$ 43.7	$ 1,590.7
Liabilities and members' equity			
Liabilities			
Contract liabilities	$ —	$ 36.7	$ 36.7
Members' equity	$ 1,545.6	$ 7.0	$ 1,552.6

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated statement of operations and balance sheet was as follows:

	Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
		(millions)	
Statement of operations			
Operating revenues			
Transportation	$ 480.4	$ 477.5	$ 2.9
Operating costs and expenses			
Depreciation expense	$ 36.4	$ 35.3	$ 1.1

	Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
		(millions)	
Balance sheet			
Assets			
Property, plant and equipment, net	$ 1,815.6	$ 1,771.0	$ 44.6
Liabilities and members' equity			
Liabilities			
Contract liabilities	$ 34.0	$ —	$ 34.0
Members' equity	$ 1,805.2	$ 1,810.4	$ (5.2)

Aside from the adjustments to the opening consolidated balance sheet noted above, the impact of adoption on our consolidated total operating, financing or investing activities of our consolidated statement of cash flows for the period ended December 31, 2018 was immaterial.

4. Remaining Performance Obligation

Our remaining performance obligations consist primarily of minimum volume commitment fee arrangements. Upon completion of the performance obligations associated with these arrangements, customers are invoiced and revenue is recognized as transportation revenue in the consolidated statements of operations. The total amount of remaining performance obligations is estimated at approximately $556.9 million as of December 31, 2019. Our remaining performance obligations are expected to be recognized through 2029 with a weighted average remaining life of 4 years as of December 31, 2019. As a practical expedient permitted by ASC 606, this amount excludes variable consideration as well as remaining performance obligations that have original expected durations of one year or less, as applicable. Our remaining performance obligations also exclude estimates of variable rate escalation clauses in our contracts with customers.

5. Contract Liabilities - Affiliates

We have agreements that provide for minimum volume commitments. Under these agreements, our customers agree to ship a minimum volume of product on our pipeline over an agreed time period. If a customer fails to meet its minimum volume commitment for a specified period, the customer is obligated to pay a contractually-determined fee based upon the shortfall between the actual product volumes and the minimum volume commitment for that period. We record revenue under minimum volume contracts during periods of shortfall when it is known that the customer cannot, or will not, make up some or all of the deficiency in subsequent periods. For the year ended December 31, 2018, we recognized $1.9 million of deficiency payments, which was reflected in transportation revenue. There were no additional deficiency payments collected for the year ended December 31, 2019.

Our contract liabilities primarily consist of deferred revenue received from reimbursable projects. The following table summarizes changes in contract liabilities included in our balance sheet:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(millions)	
Balance, beginning of period	$ 34.0	$ 36.7
Additions	—	2.0
Revenue recognized (a)	(3.3)	(2.9)
Other (b)	—	(1.8)
Balance, end of period	$ 30.7	$ 34.0

(a) Deferred revenue recognized is included in affiliate transportation revenues on the consolidated statements of operations.
(b) Amended reimbursable projects

6. Summary of Transactions with Affiliates

DCP Midstream

Under the LLC Agreement, we are required to reimburse DCP Midstream for any direct costs or expenses (other than general and administration services) incurred by DCP Midstream on our behalf. Additionally, we pay DCP Midstream an annual service fee of $5.0 million, for centralized corporate functions provided by DCP Midstream on our behalf, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, taxes and engineering. These expenses are included in general and administrative expense - affiliates in the consolidated statements of operations. Except with respect to the annual service fee, there is no limit on the reimbursements we make to DCP Midstream under the LLC Agreement for other expenses and expenditures incurred or payments made on our behalf.

We have entered into transportation agreements with DCP Midstream, which include a commitment to transport volumes at rates defined in our tariffs. These 15-year transportation agreements became effective in June 2013. We currently, and anticipate to continue to, transact with DCP Midstream in the ordinary course of business. DCP Midstream was a significant customer during the years ended December 31, 2019, 2018 and 2017.

DCP Southern Hills Pipeline, LLC

We have a long-term capacity arrangement with DCP Southern Hills Pipeline, LLC, or Southern Hills, which expires in March 2023. Under the terms of this agreement, Southern Hills has the right to transport minimum throughput volumes on the Sand Hills pipeline at rates defined in the transportation agreement.

Summary of Transactions with Affiliates

The following table summarizes our transactions with affiliates:

	Year Ended December 31, 2019		Year Ended December 31, 2018		Year Ended December 31, 2017	
			(millions)			
DCP Midstream and its affiliates:						
Transportation - affiliates	$	510.9	$	384.1	$	236.7
Cost of transportation - affiliates	$	4.0	$	6.0	$	3.6
General and administrative expense - affiliates	$	5.0	$	5.0	$	5.0
Southern Hills:						
Transportation - affiliates	$	3.5	$	3.3	$	3.2
Phillips 66:						
Transportation - affiliates	$	—	$	1.5	$	6.5
General and administrative expense - affiliates	$	0.2	$	0.2	$	0.2
Enbridge:						
Transportation - affiliates	$	—	$	0.1	$	—

We had balances with affiliates as follows:

	December 31, 2019		December 31, 2018	
		(millions)		
DCP Midstream and its affiliates:				
Accounts receivable	$	46.4	$	39.7
Accounts payable	$	7.7	$	6.2
Contract liabilities	$	30.7	$	34.0
Southern Hills:				
Accounts receivable	$	0.3	$	0.3
Phillips 66:				
Other current assets	$	0.1	$	0.1

7. Property, Plant and Equipment

Property, plant and equipment by classification is as follows:

	Depreciable Life	December 31, 2019	December 31, 2018
		(millions)	
Transmission systems	20-50 Years	$ 1,982.6	$ 1,957.9
Processing facilities	35-60 Years	0.3	0.3
Other	3-30 Years	5.2	3.4
Land		0.4	0.4
Construction work in progress		9.8	20.8
Property, plant and equipment		1,998.3	1,982.8
Accumulated depreciation		(208.3)	(167.2)
Property, plant and equipment, net		$ 1,790.0	$ 1,815.6

8. Commitments and Contingent Liabilities

Regulatory Compliance - In the ordinary course of business, we are subject to various laws and regulations. In the opinion of our management, compliance with existing laws and regulations will not materially affect our consolidated results of operations, financial position, or cash flows.

Litigation - We are not party to any significant legal proceedings, but are a party to various administrative and regulatory proceedings and various commercial disputes that arose during the development of the Sand Hills pipeline and in the ordinary course of our business. Management currently believes that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage and other indemnification arrangements, will not have a material adverse effect on our consolidated results of operations, financial position, or cash flows.

General Insurance - Insurance for Sand Hills is written in the commercial markets and through affiliate companies, which management believes is consistent with companies engaged in similar commercial operations with similar assets. Our insurance coverage includes general liability and excess liability insurance above the established primary limits for general liability. 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 for transporting NGLs 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 United States laws and regulations at the federal, state, and, in some cases, local levels that relate to worker safety, pipeline safety, air and water quality, solid and hazardous waste storage, management, transportation and disposal, and other environmental matters. The cost of planning, designing, constructing, and operating pipelines incorporates compliance with environmental laws and regulations, worker safety standards, and safety standards applicable to our various facilities. In addition, there is increasing focus from (i) regulatory bodies and communities, and through litigation, on hydraulic fracturing and the real or perceived environmental or public health impacts of this technique, which indirectly presents some risk to the available supply of natural gas and the resulting supply of NGLs, (ii) regulatory bodies regarding pipeline system safety which could impose additional regulatory burdens and increase the cost of our operations, and (iii) regulatory bodies and communities that could prevent or delay the development of fossil fuel energy infrastructure such as pipeline and associated facilities used in our business. Failure to comply with 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 consolidated results of operations, financial position, or cash flows.

Purchase Obligations - We have a capacity arrangement which terminates in May 2023, with an option to renew annually thereafter. Under the terms of this agreement, Sand Hills has the right to transport minimum throughput volumes on a third party pipeline at rates defined in the capacity arrangement. The expected cost to reserve the capacity over the term is as follows:

	(millions)
2020	$ 2.8
2021	2.8
2022	2.8
2023	1.2
Total obligation	$ 9.6

During the year ended December 31, 2019, the fixed cost of transportation under this arrangement was $2.8 million.

9. Supplemental Cash Flow Information

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
Non-cash investing and financing activities:			
Property, plant and equipment acquired with accrued liabilities and accounts payable	$ 1.5	$ 18.2	$ 20.6
Cumulative effect of applying ASU 2016-02 on operating lease asset	$ —	$ 43.7	$ —
Cumulative effect of applying ASU 2016-02 on current operating lease liabilities	$ —	$ (36.7)	$ —
Cumulative effect of applying ASU 2016-02 on long-term operating lease liabilities	$ —	$ (7.0)	$ —
Other non-cash changes in property, plant and equipment, net	$ (0.6)	$ 0.4	$ 0.1

10. Subsequent Events

We have evaluated subsequent events occurring through February 7, 2020, the date the consolidated financial statements were issued, and have identified no events that require adjustments to or disclosure in these consolidated financial statements.

DCP SOUTHERN HILLS PIPELINE, LLC

Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Members of DCP Southern Hills Pipeline, LLC

We have audited the accompanying consolidated financial statements of DCP Southern Hills Pipeline, LLC and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DCP Southern Hills Pipeline, LLC and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3 to the consolidated financial statements, in 2018, the Company adopted new accounting guidance related to recognition of revenue from contracts with customers. Our opinion is not modified with respect to this matter.

As discussed in Notes 5 and 6 to the consolidated financial statements, the Company has significant transactions with related parties. Our opinion is not modified with respect to this matter.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 7, 2020

DCP SOUTHERN HILLS PIPELINE, LLC
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8.9	$ 5.7
Accounts receivable:		
Affiliates	15.3	14.0
Trade and other	4.0	1.1
Other current assets	0.2	0.1
Total current assets	28.4	20.9
Property, plant and equipment, net	929.5	908.3
Other long-term assets	0.7	—
Total assets	$ 958.6	$ 929.2
LIABILITIES AND MEMBERS’ EQUITY		
Current liabilities:		
Accounts payable:		
Trade and other	$ 10.0	$ 7.3
Affiliates	4.3	1.8
Accrued taxes	3.4	1.8
Accrued capital expenditures	8.5	4.5
Accrued liabilities and other	2.1	3.0
Total current liabilities	28.3	18.4
Contract liabilities - affiliates	13.1	14.5
Other long-term liabilities	2.8	1.9
Total liabilities	44.2	34.8
Commitments and contingent liabilities		
Total members’ equity	914.4	894.4
Total liabilities and members’ equity	$ 958.6	$ 929.2

See Notes to Consolidated Financial Statements.

DCP SOUTHERN HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
Operating revenues:			
Transportation - affiliates	$ 173.8	$ 157.6	$ 127.7
Transportation	9.4	8.8	5.2
Other revenue - affiliates	—	0.8	—
Total operating revenues	183.2	167.2	132.9
Operating costs and expenses:			
Cost of transportation - affiliates	4.7	3.3	3.3
Cost of transportation	1.1	—	—
Operating and maintenance expense	27.9	29.3	27.0
Depreciation expense	21.4	21.2	20.9
General and administrative expense - affiliates	5.2	5.2	5.2
General and administrative expense	2.5	2.1	1.8
Total operating costs and expenses	62.8	61.1	58.2
Operating income	120.4	106.1	74.7
Interest income	0.4	0.3	0.1
Income tax expense	(0.4)	(0.3)	(0.3)
Net income	$ 120.4	$ 106.1	$ 74.5

See Notes to Consolidated Financial Statements.

DCP SOUTHERN HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	DCP Southern Holding, LLC	DCP Pipeline Holding LLC	Phillips 66 Southern Hills LLC	Total Members' Equity
	(millions)			
Balance, January 1, 2017	$ 308.6	$ 307.9	$ 308.6	$ 925.1
Distributions to members	(31.1)	(31.1)	(31.1)	(93.3)
Net income	24.8	24.9	24.8	74.5
Balance, December 31, 2017	302.3	301.7	302.3	906.3
Contributions from members	—	2.0	1.0	3.0
Distributions to members	(7.8)	(75.2)	(41.5)	(124.5)
Cumulative effect adjustment (see Note 3)	1.2	1.1	1.2	3.5
Transfer of interest in DCP Southern Hills Pipeline, LLC (see Note 1)	(305.7)	305.7	—	—
Net income	10.0	60.6	35.5	106.1
Balance, December 31, 2018	—	595.9	298.5	894.4
Contributions from members	—	22.5	11.3	33.8
Distributions to members	—	(89.4)	(44.8)	(134.2)
Net income	—	80.3	40.1	120.4
Balance, December 31, 2019	$ —	$ 609.3	$ 305.1	$ 914.4

See Notes to Consolidated Financial Statements.

DCP SOUTHERN HILLS PIPELINE, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
OPERATING ACTIVITIES:			
Net income	$ 120.4	$ 106.1	$ 74.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	21.4	21.2	20.9
Other	(1.2)	(1.1)	0.1
Change in operating assets and liabilities:			
Accounts receivable	(4.4)	(2.2)	(1.5)
Accounts payable	3.9	1.6	0.9
Other current liabilities	0.5	1.4	0.5
Other long-term liabilities	—	1.6	—
Net cash provided by operating activities	140.6	128.6	95.4
INVESTING ACTIVITIES:			
Capital expenditures	(37.0)	(7.1)	(0.4)
Proceeds from sale of assets	—	—	0.2
Net cash used in investing activities	(37.0)	(7.1)	(0.2)
FINANCING ACTIVITIES:			
Contributions from members	33.8	3.0	—
Distributions to members	(134.2)	(124.5)	(93.3)
Net cash used in financing activities	(100.4)	(121.5)	(93.3)
Net change in cash and cash equivalents	3.2	—	1.9
Cash and cash equivalents, beginning of period	5.7	5.7	3.8
Cash and cash equivalents, end of period	$ 8.9	$ 5.7	$ 5.7

See Notes to Consolidated Financial Statements.

1. Description of Business and Basis of Presentation

DCP Southern Hills Pipeline, LLC, with its consolidated subsidiary, or Southern Hills, we, our, the Company, or us, is engaged in the business of transporting natural gas liquids, or NGLs. The Southern Hills pipeline provides takeaway service from plants in the Midcontinent and DJ Basin to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu, Texas market hub. The Southern Hills pipeline was placed into service in June 2013.

We are a limited liability company owned 66.665% by DCP Pipeline Holding LLC, a 100% owned subsidiary of DCP Midstream, LP, or DCP Midstream, and 33.335% by Phillips 66 Southern Hills LLC, a 100% owned subsidiary of Phillips 66 Partners LP, or Phillips 66 Partners. On May 1, 2018, DCP Southern Holding, LLC, a 100% owned subsidiary of DCP Midstream, contributed its 33.335% ownership interest in the Company to DCP Pipeline Holding LLC. Previously, we were owned 33.330% by DCP Pipeline Holding LLC, 33.335% by DCP Southern Holding, and 33.335% by Phillips 66 Southern Hills LLC. Throughout these consolidated financial statements, DCP Midstream and Phillips 66 Partners will together be referenced as the members. DCP Midstream is the operator of the Southern Hills pipeline.

The Company allocates revenues, costs, and expenses in accordance with the terms of the Second Amended and Restated LLC Agreement, which became effective on September 3, 2013, or the LLC Agreement, to each of the members based on each member’s ownership interest. Under terms of the LLC Agreement, the members are required to fund capital calls necessary to fund the capital requirements of the Company, including capital expansion and working capital requirements. Under the terms of the LLC Agreement, cash calls and cash distributions from operations are allocated to the members based upon each member’s respective ownership interest.

The consolidated financial statements include the accounts of Southern Hills and its 100% owned subsidiary and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Intercompany balances and transactions have been eliminated. Transactions between us and the members have been identified in the consolidated financial statements as transactions between affiliates.

2. Summary of Significant Accounting Policies

Use of Estimates - Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Although these estimates are based on management’s best available knowledge of current and expected future events, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all cash balances and investments in highly liquid financial instruments purchased with an original stated maturity of 90 days or less and temporary investments of cash in short-term money market securities.

Distributions - Under the terms of the LLC Agreement, we are required to make quarterly distributions to the members based on Available Cash, as the term is defined in the LLC Agreement. Available Cash distributions are paid pursuant to the members’ respective ownership percentages at the date the distributions are due.

Estimated Fair Value of Financial Instruments - The fair value of cash and cash equivalents, accounts receivable and accounts payable included in the consolidated balance sheets are not materially different from their carrying amounts because of the short-term nature of these instruments. We may invest available cash balances in short-term money market securities. As of December 31, 2019 and 2018, we invested $8.9 million and $5.6 million, respectively, in short-term money market securities
which are included in cash and cash equivalents in our consolidated balance sheets. Given that the short-term money market securities are publicly traded and market prices are readily available, these investments are considered Level 1 fair value measurements.

Concentration of Credit Risk - Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and accounts receivable. We extend credit to customers and other parties in the normal course of business and have established various procedures to manage our credit exposure, including initial credit approvals, credit limits and rights of offset.

Property, Plant and Equipment - Property, plant and equipment are recorded at historical cost. The cost of maintenance and repairs, which are not significant improvements, are expensed when incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Long-Lived Assets - We periodically evaluate whether the carrying value of long-lived assets has been impaired when circumstances indicate the carrying value of those assets may not be recoverable. This evaluation is based on undiscounted cash flow projections. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. We consider various factors when determining if these assets should be evaluated for impairment, including but not limited to:

- a significant adverse change in legal factors or business climate;
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- significant adverse changes in the extent or manner in which an asset is used, or in its physical condition;
- a significant adverse change in the market value of an asset; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of before the end of its estimated useful life.

If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value. We assess the fair value of long-lived assets using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third party comparable sales and discounted cash flow models. Significant changes in market conditions resulting from events such as the condition of an asset or a change in management's intent to utilize the asset would generally require management to reassess the cash flows related to the long-lived assets.

Revenue Recognition - Our operating revenues are primarily derived from services related to transportation of NGLs. Revenues from transportation agreements are recognized based on contracted volumes transported in the period the services are provided. Our contracts generally have terms that extend beyond one year, and are recognized over time. The performance obligation for most of our contracts encompasses a series of distinct services performed on discrete daily quantities of NGLs for purposes of allocating variable consideration and recognizing revenue while the customer simultaneously receives and consumes the benefits of the services provided. Revenue is recognized over time consistent with the transfer of goods or services over time to the customer based on daily volumes delivered. Consideration is generally variable, and the transaction price cannot be determined at the inception of the contract, because the volume of NGLs for which the service is provided is only specified on a daily or monthly basis. The transaction price is determined at the time the service is provided as the uncertainty is resolved.

Contract liabilities - We have contracts with customers whereby the customer reimburses us for costs we incur to construct certain connections to our operating assets. These agreements are typically entered into in conjunction with transportation agreements with customers. Prior to January 1, 2018 we previously accounted for these arrangements as a reduction to the cost basis of our long-lived assets which were amortized as a reduction to depreciation expense over the estimated useful life of the related assets. Under the accounting guidance currently effective we record these payments as deferred revenue which will be amortized into revenue over the expected contract term.

Significant Customers - There was no third party customer that accounted for more than 10% of total operating revenue for the years ended December 31, 2019, 2018 and 2017. There were significant transactions with affiliates for each of the years ended December 31, 2019, 2018 and 2017. See Note 6, Summary of Transactions with Affiliates.

Environmental Expenditures - Environmental expenditures are expensed or capitalized as appropriate, depending upon the future economic benefit. Expenditures that relate to an existing condition caused by past operations and that do not generate current or future revenue are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated.

Income Taxes - We are structured as a limited liability company, which is a pass-through entity for federal income tax purposes. As a limited liability company, we do not pay federal income taxes. Instead, our income or loss for tax purposes is allocated to each of the members for inclusion in their respective tax returns. Consequently, no provision for federal income taxes has been reflected in these consolidated financial statements. We are subject to the Texas margin tax, which is treated as a state income tax. We follow the asset and liability method of accounting for state income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences between the consolidated financial statement carrying amounts and the tax basis of the assets and liabilities. For the years ended December 31, 2019, 2018 and 2017, deferred state income tax expense totaled $0.2 million, $0.1 million and $0.2 million, respectively. For the years ended December 31, 2019, 2018 and 2017, current state income tax expense totaled $0.2 million, $0.2 million and $0.1 million, respectively.

3. Recent Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU"), 2016-13 “Financial Instruments-Credit Losses (Topic 326),” or ASU 2016-13 - In June 2016, the FASB issued ASU 2016-13, which requires measuring all expected credit losses for financial instruments held at the reporting date based on historical experience and immediate recognition of management’s estimates of current expected credit losses. We adopted this ASU on January 1, 2020 and it did not have a material impact on our consolidated financial statements.

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 adopted this ASU on January 1, 2019 using the modified retrospective approach without application to prior periods. We implemented the following practical expedients and policy elections permitted under the new standard: (a) the package of practical expedients allowing us to not reassess whether expired or existing contracts contain a lease, the lease classification for any expired or existing leases and the treatment of initial direct costs for any expired or existing leases, (b) the land easement practical expedient, allowing us to carry forward our current accounting treatment for land easements in existing agreements, (c) not recognizing lease assets or liabilities when lease terms are less than twelve months and (d) for agreements that contain both lease and non-lease components, the company combines these components together and accounting for them as a single lease for all asset types.

The cumulative effect of the changes made to our consolidated January 1, 2019 balance sheet for the adoption of Topic 842 did not have material impact on our consolidated balance sheet or consolidated statement of cash flows.

FASB ASU 2014-09 “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09 and related interpretations and amendments **-** In May 2014, the FASB issued ASU 2014-09, which supersedes the revenue recognition requirements of Accounting Standards Codification Topic 605 “Revenue Recognition.” We adopted this ASU on January 1, 2018 using the modified retrospective method. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We recognized the initial cumulative effect of applying this ASU as an adjustment to the 2018 opening balance of members’ equity.

The adjustment to members’ equity represents the difference between amortizing deferred customer balances over the fixed asset useful life versus the estimated contract term. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of Topic 606 was as follows:

	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
		(millions)	
Balance sheet			
Assets			
Property, plant and equipment, net	$ 902.1	$ 17.9	$ 920.0
Liabilities and members' equity			
Liabilities			
Contract liabilities	$ —	$ 14.4	$ 14.4
Members' equity	$ 906.3	$ 3.5	$ 909.8

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated statement of operations and balance sheet was as follows:

	Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
		(millions)	
Statement of operations			
Operating revenues			
Transportation	$ 166.4	$ 164.6	$ 1.8
Operating costs and expenses			
Depreciation expense	$ 21.2	$ 20.8	$ 0.4

	Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
		(millions)	
Balance sheet			
Assets			
Property, plant and equipment, net	$ 908.3	$ 889.4	$ 18.9
Liabilities and members' equity			
Liabilities			
Contract liabilities	$ 15.5	$ —	$ 15.5
Members' equity	$ 894.4	$ 896.5	$ (2.1)

Aside from the adjustments to the opening consolidated balance sheet noted above, the impact of adoption on our consolidated total operating, financing or investing activities of our consolidated statement of cash flows for the period ended December 31, 2018 was immaterial.

4. Remaining Performance Obligation

Our remaining performance obligations consist primarily of minimum volume commitment fee arrangements. Upon completion of the performance obligations associated with these arrangements, customers are invoiced and revenue is recognized as transportation revenue in the consolidated statements of operations. The total amount of remaining performance obligations is estimated at approximately $431.1 million as of December 31, 2019. Our remaining performance obligations are expected to be recognized through 2029 with a weighted average remaining life of 5 years as of December 31, 2019. As a practical expedient permitted by ASC 606, this amount excludes variable consideration as well as remaining performance obligations that have original expected durations of one year or less, as applicable. Our remaining performance obligations also exclude estimates of variable rate escalation clauses in our contracts with customers.

5. Contract Liabilities - Affiliates

Our contract liabilities primarily consist of deferred revenue received from reimbursable projects. The following table summarizes changes in contract liabilities included in our balance sheets:

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(millions)	
Balance, beginning of period	$ 14.5	$ 14.4
Additions	—	2.9
Revenue recognized (a)	(1.4)	(1.8)
Balance, end of period	13.1	15.5
Current contract liabilities	—	(1.0)
Long-term contract liabilities - affiliates	$ 13.1	$ 14.5

(a) Deferred revenue recognized is included in affiliate transportation revenues on the consolidated statements of operations.

6. Summary of Transactions with Affiliates

DCP Midstream

Under the LLC Agreement, we are required to reimburse DCP Midstream for any direct costs or expenses (other than general and administration services) incurred by DCP Midstream on our behalf. Additionally, we pay DCP Midstream an annual service fee of $5.0 million, for centralized corporate functions provided by DCP Midstream on our behalf, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, taxes and engineering. These expenses are included in general and administrative expense - affiliates in the consolidated statements of operations. Except with respect to the annual service fee, there is no limit on the reimbursements we make to DCP Midstream under the LLC Agreement for other expenses and expenditures incurred or payments made on our behalf.

We have entered into transportation agreements with DCP Midstream, which include a commitment to transport volumes at rates defined in our tariffs. These 15-year transportation agreements became effective in June 2013. We currently, and anticipate to continue to, transact with DCP Midstream in the ordinary course of business. DCP Midstream was a significant customer during the years ended December 31, 2019, 2018 and 2017.

DCP Sand Hills Pipeline, LLC

We have a long-term capacity arrangement with DCP Sand Hills Pipeline, LLC, or Sand Hills, which expires in March 2023. Under the terms of this agreement, Southern Hills has the right to transport minimum throughput volumes on the Sand Hills pipeline at rates defined in the transportation agreement.

Summary of Transactions with Affiliates

The following table summarizes our transactions with affiliates:

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
DCP Midstream and its affiliates:			
Transportation - affiliates	$ 173.8	$ 157.6	$ 127.7
Other revenue - affiliates	$ —	$ 0.8	$ —
Cost of transportation - affiliates	$ 1.2	$ —	$ 0.1
General and administrative expense - affiliates	$ 5.0	$ 5.0	$ 5.0
Phillips 66:			
General and administrative expense - affiliates	$ 0.2	$ 0.2	$ 0.2
Sand Hills:			
Cost of transportation - affiliates	$ 3.5	$ 3.3	$ 3.2

We had balances with affiliates as follows:

	December 31, 2019	December 31, 2018
	(millions)	
DCP Midstream and its affiliates:		
Accounts receivable	$ 15.3	$ 14.0
Accounts payable	$ 4.0	$ 1.5
Contract liabilities	$ 13.1	$ 14.5
Phillips 66		
Other current assets	$ 0.1	$ 0.1
Sand Hills:		
Accounts payable	$ 0.3	$ 0.3

7. Property, Plant and Equipment

Property, plant and equipment by classification is as follows:

	Depreciable Life	December 31, 2019	December 31, 2018
		(millions)	
Transmission systems	20-50 Years	$ 1,050.4	$ 1,010.6
Other	3-30 Years	4.6	3.9
Land		2.0	2.0
Construction work in progress		8.8	6.7
Property, plant and equipment		1,065.8	1,023.2
Accumulated depreciation		(136.3)	(114.9)
Property, plant and equipment, net		$ 929.5	$ 908.3

8. Commitments and Contingent Liabilities

Regulatory Compliance - In the ordinary course of business, we are subject to various laws and regulations. In the opinion of our management, compliance with existing laws and regulations will not materially affect our consolidated results of operations, financial position, or cash flows.

Litigation - We are not party to any significant legal proceedings, but are a party to various administrative and regulatory proceedings and various commercial disputes that arose during the development of the Southern Hills pipeline and in the ordinary course of our business. Management currently believes that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage and other indemnification arrangements, will not have a material adverse effect on our consolidated results of operations, financial position, or cash flows.

General Insurance - Insurance for Southern Hills is written in the commercial markets and through affiliate companies, which management believes is consistent with companies engaged in similar commercial operations with similar assets. Our insurance coverage includes general liability and excess liability insurance above the established primary limits for general liability. 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 for transporting NGLs 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 United States laws and regulations at the federal, state, and, in some cases, local levels that relate to worker safety, pipeline safety, air and water quality, solid and hazardous waste storage, management, transportation and disposal, and other environmental matters. The cost of planning, designing, constructing, and operating pipelines incorporates compliance with environmental laws and regulations, worker safety standards, and safety standards applicable to our various facilities. In addition, there is increasing focus from (i) regulatory bodies and communities, and through litigation, on hydraulic fracturing and the real or perceived environmental or public health impacts of this technique, which indirectly presents some risk to the available supply of natural gas and the resulting supply of NGLs, (ii) regulatory bodies regarding pipeline system safety which could impose additional regulatory burdens and increase the cost of our operations, and (iii) regulatory bodies and communities that could prevent or delay the development of fossil fuel energy infrastructure such as pipeline and associated facilities used in our business. Failure to comply with 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 consolidated results of operations, financial position, or cash flows.

Purchase Obligations - We have capacity arrangements which terminate March 2023 and December 2029, with options to renew annually thereafter. Under the terms of these agreements, Southern Hills has the right to transport minimum throughput volumes on other pipelines at rates defined in the capacity arrangement. The expected cost to reserve the capacity over the term is as follows:

	(millions)
2020	$ 17.8
2021	17.8
2022	17.8
2023	15.4
2024	14.6
Thereafter	73.0
Total obligations	$ 156.4

During the year ended December 31, 2019, the fixed cost of transportation under this arrangement was $3.2 million.

9. Supplemental Cash Flow Information

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
		(millions)	
Non-cash investing and financing activities:			
Property, plant and equipment acquired with accrued liabilities and accounts payable	$ 9.9	$ 4.6	$ 0.1
Cumulative effect of applying ASU 2014-09 on property, plant and equipment	$ —	$ 17.9	$ —
Cumulative effect of applying ASU 2014-09 on contract liabilities	$ —	$ (14.4)	$ —
Cumulative effect of applying ASU 2014-09 on members' equity	$ —	$ (3.5)	$ —
Other non-cash changes in property, plant and equipment, net	$ 0.1	$ —	$ —

10. Subsequent Events

We have evaluated subsequent events occurring through February 7, 2020, the date the consolidated financial statements were issued, and have identified no events that require adjustments to or disclosure in these consolidated financial statements.