FINAL TRANSCRIPT

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DPM - Q2 2008 DCP MIDSTREAM PARTNERS LP Earnings Conference Call

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PRESENTATION

Operator

Hello and welcome to the DCP Midstream Partners Second Quarter 2008 Earnings Conference Call. All participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. (OPERATOR INSTRUCTIONS). Please note this conference is being recorded. Now I would like to turn the conference over to Karen Taylor, Director of Investor Relations. Ms. Taylor?

Karen Taylor - *DCP Midstream Partners - IR*

Thanks, Amy. Good morning and welcome to the DCP Midstream Partners Second Quarter 2008 Earnings Release Conference Call. As always, we want to thank you for your interest in the partnership. Today you'll hear from Mark Borer, President and Chief Executive Officer. Before I turn it over to Mark, I'll mention a couple of items. First, all of the slides we'll be talking from today are available on our website at www.dcppartners.com in .pdf format. You may access them by clicking on the investor page, and then the webcast icon.

Next, I'd like to remind that you that our discussion today may contain forward-looking statements. Actual results may differ due to certain risk factors that affect our business. Please review the second slide in the deck that describes our use of forward-looking statements and lists some of the risk factors that affect actual results. For a complete listing of the risk factors that may impact our business results, please review our form 10-K for the year ended December 31, 2007 as filed with the SEC on March 10, 2008 as updated through subsequent SEC filings.

In addition, during our discussion we will use various non-GAAP measures including distributable cash flow, adjusted EBITDA and adjusted gross margins. These measures are reconciled to the nearest GAAP measure in schedules at the end of the presentation starting with slide number 17. We ask that you read those slides as well.

And finally, a note about the presentation of our earnings. On July 1, 2007 we completed the acquisition of equity interest in East Texas and Discovery from DCP Midstream. Since this transaction was between entities under common control, the historical results prior to the partnership's acquisition, including distributable cash flow are included in the partnership's results for the second quarter of 2007. Results for these equity interests for periods prior to our ownership are allocated to predecessor operations to derive net income or loss attributable to limited partners. And now I'll turn it over to Mark Borer.

Mark Borer - *DCP Midstream Partners - President and CEO*

Thanks, Karen. Good morning everyone and thanks for joining us. You've seen the press releases this week. You can see we are making substantial progress on our organic growth projects with partnerships. I'll begin this morning with an overview of these projects and then provide a quick look at this quarter's business highlights and operating results. I'll conclude with the discussion of our financing and risk management activities, and then we'll be happy to take your questions.

I'll start with slide four. We announced yesterday we are preparing to sign definitive agreements for a $150 million gathering expansion to our Collbran Valley system in the Piceance Basin. The project includes 20 miles of 24 inch-diameter pipe and 30,000 horsepower of compression. Initial investment over the next 12 months will be approximately $100 million, or $70 million for our 70% share of the joint venture. This will allow us to achieve initial through-put capacity of approximately 300 million cubic feet per day. We also plan to spend an additional $50 million gross over time, primarily on compression as (vines) ramp up to the 600 million cubic feet per day range. This is a great opportunity for the partnership as this investment will be supported by a 100% fee-base contract and long-term acreage dedication.

We've been working closely with our two partners in the gathering system, Plains Exploration and Delta Petroleum, to find the wining combination to support their production needs. As part of the project, we will decommission our Anderson Gulch Processing Plant in 2009 and route the gas to a third-party plant for processing. The fees we have negotiated with our partners will compensate the joint venture for decommissioning the plant and also provide attractive accretion on the new gathering system. Simply put, this is a great project for the partnership.

Let's move on to slide five. We also announced a significant gathering system expansion to our East Texas joint venture with our sponsor, DCP Midstream. $56 million investment or $14 million for our 25% share will extend our gathering system to capture dedicated volumes in Southwest Panola County and in a rapidly-developing area of the Minden Field in Ross County. The expansion is estimated to be complete in the second quarter of 2009, and will have a capacity of approximately 175 million cubic feet a day. Volumes on this line will be delivered for processing to our 780 million cubit feet a day Carthage complex. We mentioned in the call last quarter that we intended to spend capital to extend our gathering reach. And we're very pleased to have this project underway.

Let's move on to slide six. The last project we announced had the potential to be the most exciting of the three. We've entered into an agreement with M2 Midstream, formerly Momentum Energy Group, pursued development of a new 150 mile large-diameter, intrastate pipeline through the Haynesville Shale Play in northern Louisiana. We're calling this line the Haynesville Connector.

We have existing operations surrounding and encompassing the heart of the potential Haynesville Shale Play. Specifically, we can leverage off our existing Pelico intrastate pipeline to provide service to customers on an expedited basis for what looks to be one of the most highly anticipated shale plays in the country with some forecasts exceeding 4 billion cubic feet a day within a five-year period.

We've been meeting with producers to gauge interest and have engineers working on a definitive pipeline route. If built, the Haynesville Connector is forecasted to commence initial deliveries in the third quarter of 2009 and would offer an estimated 1.5 billion cubic feet a day of take-away capacity by early 2010. We'll keep you posted on our progress on this exciting opportunity.

Let's move on to slide 7 to discus the East Texas drop down. As we stated in our release last evening, we and our sponsors are committed to pursing a drop down of the remaining 75% of the East Texas joint venture partnership. However, we may defer it beyond our original 2008 target date. No cause for alarm in this, one of the advantages of having strong sponsorship is flexibility in the timing of drop downs. Our sponsors are committed to the growth of the partnership and drop down acquisitions are just one avenue for that growth. With the slate of very attractive organic projects we just discussed, we determined there's no need to force a transaction in a period where capital markets are unpredictable. We believe that this is prudent management and is in the best interest of our unit holders. We will execute the drop down when we believe the timing is right.

Now let's shift to some operating highlights for the second quarter. Natural gas throughput volumes are up 14% over the second quarter of last year and up slightly over the first quarter of this year. Comparing the second quarter of 2008 to the same period in 2007, the primary drivers of the increase are the acquisitions of our Collbran, Douglas, and Lindsay assets, as well as an increase in East Texas volumes.

NGL production volumes are up 10% over the second quarter of last year, down about 5% from the first quarter of this year. The same volume drivers as we have for natural gas throughput hold true for the comparison of the second quarter of 2008 to the same period of 2007. The 5% decrease in NGL volumes in the second quarter of 2008 compared to the first quarter is primarily attributable to decreased recoveries at Discovery. And there are two reasons for this. First, the plant was an assay in rejection for part of the quarter as repairs were made to a fractionator. And second, we are receiving leaner gas off of the Tesco system.

In our wholesale propane segment, we previously noted that one of our primary propane suppliers prematurely terminated their contract with us in February of this year causing some disruption to our supply. Overall, volumes continue to lag due to conservation driven by high propane prices.

Effective May 1, we entered into a new six-year propane supply contract with a subsidiary of Spectra Energy a 50% owner of DCP Midstream for delivers to our marine terminal at Providence, Rhode Island. Spectra secured propane supply through resolution of a commercial dispute with Sonotrac, an Algerian company. This contract will provide a significant source of our supply. We're very please to have this deal in place with one of our sponsors.

Now turning to slide eight, we'll shift gears to our recent distribution increase announced on July 24. This is our ninth consecutive distribution increase. Our new rate of $0.60 per unit or $2.40 annually represents a 13% increase over the second quarter distribution a year ago. Our distributable cash flow for the second quarter of 2008 was $23.5 million or 1.17 times the amount required to cover the distribution for both the general partner and limited partners. For the six months ended June 30, 2008, our distributable cash flow of $55.6 million provided 1.4 times the amount required to cover our total distribution. The non-cash mark-to-market losses associated with our commodity derivative instrument did not reduce our distributable cash flow.

Now let's move on to review the numbers for the quarter. I'll start off with the quarterly results and then move on to a brief discussion of financing and risk management.

I'll start on slide number ten. As we go through the numbers, please note that we will be discussing results adjusted to remove the impact of noncash losses resulting from the mark-to-market of our commodity derivative instrument so an item more comparable trend analysis.

Due to the significant increase in commodity prices in the second quarter, these noncash losses totaled $170.4 million as compared to noncash losses of $11.9 million for the corresponding period in 2007. Our hedging program was put in place to protect our distributable cash flows that are subject to commodity price fluctuations, primarily within our natural gas services segment. As you know, crude and natural gas prices have fallen significantly since the end of June so the mark-to-market for our hedges has decreased accordingly.

Our adjusted EBITDA increased 24% in the second quarter of 2008 compared to the same period last year, primarily from strength in our natural gas services sector. With the acquisitions completed in 2007, and the related financing moves in, our adjusted net income is down slightly due to higher depreciation and interest expense. Although the equity earnings for the East Texas Discovery are included in our second quarter 2007 results, including in distributable cash flow, there were no associated debt balances, no interest expense, and no hedge settlement in our results prior to our acquisition of these assets on July 1, 2007.

Let's move on to the segments for a little more color on our results. Looking at slide 11, our natural gas services segment adjusted gross margin for the second quarter was just over 5% higher than the same period last year. Equity earnings for our interest in East Texas and Discovery more than doubled over the same period. To understand our results there are a few important items to note. First, because we don't own 100% of East Texas and Discovery, the commodity derivatives we've put in place for our equity share are accounted for in adjusted segment gross margin, and are not in the earnings from equity method investment results. For a clearer picture of our East Texas and Discovery results, you should reduce our equity earnings by $5.2 million for hedge settlements during the second quarter of 2008. This $5.2 million is currently reported to adjusted segment gross margin. In doing so you will also get a clearer picture of the margin increases associated with last year's acquisitions. Note we did not have hedge settlements for East Texas and Discovery in the second quarter of 2007.

Next our results for East Texas and Discovery would have been higher in the second quarter of 2008 absent some operational issues that reduced our NGL recoveries. Repairs were completed at Discovery in June, and repairs to the dehydration unit at one of our East Texas facilities are scheduled during planned maintenance in August.

Finally, after receiving the results from pipeline integrity testing on our Douglas system during the quarter, we curtailed some (buy-ins) and decreased pipeline operating pressures, reducing our cash flows in the quarter by approximately $2 million to $3 million. We have commenced making initial deliveries - excuse me -- we haven't commenced initial repairs to the system to allow us to substantially reduce any volume curtailment. We expect these repairs to last about 60 days to 90 days at a cost of approximately $2 million to $3 million. While we're still evaluating various options, additional work may be necessary in the coming months to return the pipeline to normal operation.

Slide 12, you'll see our wholesale propane logistics adjusted segment gross margins decreased $1.5 million for the second quarter of 2008, as compared to the same period last year due to lower unit margins and sales volume. As we indicated earlier, one of our primary propane suppliers prematurely terminated their contract with us in February of this year. In April, we received $1.5 million from this supplier related to the contract termination. This settlement is recorded in other operating income and not gross margin on our income statement.

For the NGL logistics segment on slide 13, gross margin was up almost $1 million in the second quarter of 2008, as compared to last year due to favorable in balance cash-outs and higher throughput volume. Equity earnings in Black Lake Pipeline were relatively flat.

Let's move on and discuss our finance and risk management activities on slide 14. At the end of the quarter, we had $440 million outstanding under our credit revolver at a weighted-average interest rate of 5.2%, and $220 million outstanding on the term loan under our $850 million credit facility. The term loan is fully collateralized by marketable securities resulting in a net debt balance of $440 million and available capacity under our revolver of approximately $190 million. Term loan collateral may be used to fund organic growth projects for third-party acquisitions.

Our leverage ratio is currently at the low end of our long term target of approximately three to four times, consistent with our goal of achieving an investment-grade rating. We have ample liquidity under our facility to finance the Piceance Basin and East Texas gathering expansions with that and remain well within our targeted leverage.

Now let's turn to slide number 15 and discuss commodity risk management. As we have indicated previously, we estimate 55% of our business is commodity sensitive and 45% is fee-based. Of the commodity sensitive fees, our hedge positions for 2008 cover approximately 75% of our exposure, leaving approximately 15% of our business exposed to commodity price fluctuations. We utilized fixed-price swaps to hedge our long equity positions, natural gas liquids condensate in natural gas. For our natural gas liquids we use crude oil as a proxy to hedge propane in heavier portions of the barrel. We have not hedged our long ethane position because ethane prices don't have the strong (inaudible) relationship with crude oil as the rest of the NGL barrel.

With the significant run-ups in our crude oil prices in the second quarter, NGL prices did not keep pace at their historical relationship. For the quarter, we effectively saw the upside we would have otherwise realized on our unhedged piece as a result of higher commodity prices essentially offset by the change in correlation and the decreased volumes resulting from operational issues.

Given our current contract mix, the commodities derivatives we have in place and the current NGL to crude price relationship we estimate our annualized commodity price sensitivities as follows. A $1.00 per million (BTU) change in natural gas prices impacts our cash flow by approximately $1.1 million. A $0.10 per gallon change or increase in natural gas liquid prices impacts our cash flow favorably by approximately $2.6 million. A $5.00 per barrel change in crude prices impacts our cash flow by approximately $200,000. These are all annualized commodity price sensitivities. These sensitivities reflect the cash or settled net impact of changes in commodity prices and do not include the potential noncash mark-to-market impact we may record.

The partnership has taken proactive steps to deal with the potential margining requirements of our existing commodity hedges. We have $75 million of letters of credit outside of our bank credit facility that have been posted with counterparties to reduce cash margining requirement. These letters of credit do not reduce our debt facility capacity. In addition, our sponsor, DCP Midstream has issued parental guarantees to counterparties which significantly reduce or eliminate the cash margining requirement with those counterparties. With these measures and with crude oil presently around $120 a barrel, we do not have any cash margin posted.

To recap our financing outlook, we have significant liquidity under our credit facility, finance the gathering expansions announced for Piceance Basin and East Texas facility. We intend to consistently operate within the parameters of an investment-grade rating, we have good relations with the banks who participate in our bank facility, and who are counterparties to our commodity derivative contract. Finally, we have strong sponsor support as evidenced by the guarantees put in place this quarter to offset our margining requirement. We believe all the above are an indication of our financial discipline and put the partnership on firm financial footing.

That is the conclusion of my prepared remarks. For the question and answers, I'm pleased to have Brian Frederick, our Commercial Vice President, joining us from our Houston office today, and Greg Smith, Vice President of Business Development for the partnership. They are available to discuss questions on the organic growth project. We are now ready to open up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Our first question comes from Gabe Moreen from Merrill Lynch.

Gabe Moreen - *Merrill Lynch - Analyst*

Good morning, Mark.

Mark Borer - *DCP Midstream Partners - President and CEO*

Good morning, Gabe.

Gabe Moreen - *Merrill Lynch - Analyst*

On the drop down (inaudible), I guess I'm just questioning what kind of needs to happen here to make it happen? Obviously financial market conditions don't seem to be getting any better any time soon, I just was wondering, giving us confidence that this is going to happen in 2009?

Mark Borer - *DCP Midstream Partners - President and CEO*

We still are in, us and our sponsors still remain very committed to the drop down. We just felt with the organic projects that we're executing, and particularly the fact that equity markets were not particularly constructive, we felt that we had the flexibility to potentially defer it beyond 2008. As far as the future criteria as we look at things, we'll definitely obviously look at our unit price, we'll look what's going on in debt markets, we feel pretty good about that. I think it will be important to see that placement of equity is getting done in a reasonable fashion in the marketplace. We've seen some of the discounts be rather significantly in the current environment among the ranging of 6% to 8%. We'd like obviously to return to more traditional levels. We have no set timeframe. We don't need to force a transaction, but clearly remain committed to accomplishing the drop down.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, and as a follow-up to that, was it ever discussed between you and your sponsor whether they might be willing to take back DPM equity units, flexibility in the transaction price to account for some of the financial market difficulties, and even also potentially adjusting, not necessarily dropping down the remainder of the system but maybe dropping down a smaller chunk in the interim?

Mark Borer - *DCP Midstream Partners - President and CEO*

Yes, relative to the first part of your question, Midstream has taken LP units in the past and they are definitely open, that's one of the, open to taking more equity units in the future above and beyond the levels they've taken in the past. That's clearly a benefit that we have with the nature of the sponsorship. There's been, there's not obviously completed the transaction so a final determination of that is not made, has not been made,

And relative to your second comment, clearly that's something we can evaluate at the appropriate time.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, on the Haynesville transaction, has it been discussed between yourselves and them too, with the ownership, proportions would be between both of you for that project?

Mark Borer - *DCP Midstream Partners - President and CEO*

We have, it's presently contemplated that that would be a 50/50 ownership structure.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, any thoughts on capital cost and also what you're seeing out there in terms of competition for takeaway capacity?

Mark Borer - *DCP Midstream Partners - President and CEO*

We've included Brian Frederick on this call who's the Commercial VP in that area and I'll go ahead and have Brian address that question.

Brian Frederick - *DCP Midstream Partners - Commercial VP*

As far as competition, I think there is, there is probably multiple pipelines out there trying to -- looking at alternatives. I think most of the competition is really the interstate market. What we're, one of the advantages we think we have is being able to use our intrastate status for our existing Pelico system to really speed our time line up. So we think there's competition but we think we have a big time advantage. And that's really what we're trying to put forth with producers to get gas flowing to the east as fast as possible.

Gabe Moreen - *Merrill Lynch - Analyst*

Any thoughts on capital cost or is it too early to say?

Mark Borer - *DCP Midstream Partners - President and CEO*

We are currently evaluating whether a 36-inch or 42-inch pipe is our preferred solution. I would say capital costs are going to range somewhere, depending on the pipe and pressures, compression, is probably going to be in the range of $600 million to $800 million on an AH basis.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay and when you go into these producers are you also, is this just going to be a traditional ten year contractual capacity lock up? Or are you thinking about potentially going to a cost plus type of transaction given some of the capital costs inflation in the sector that we've seen?

Mark Borer - *DCP Midstream Partners - President and CEO*

Currently with the estimates that we have and we're very far down the road in terms of putting cost estimates together we have not looked at cost plus to date. We will look at that but currently we're looking at more traditional rate structures and long term contracts.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, moving to Piceance, if I could. In terms of the multi year build out I'm just wondering how to think about modeling that in terms of when the impact and the cash flows from the project will come on line. And how the CapEx is going to be deployed?

Mark Borer - *DCP Midstream Partners - President and CEO*

Gabe, I'll have Greg Smith, who worked extensively on that project to address that question.

Greg Smith - *DCP Midstream Partners - VP, Business Development*

From a capital standpoint we're forecasting a $100 million of the $150 million will be spent over approximately the next nine months. And are forecasting that earnings will begin in the second quarter of 2009, the remaining $50 million of capital would then be spent over an approximately three to four timeframe, depending upon how volumes come on. Most of that follow on capital is compression that can be brought on earlier or spread out over more time depending upon producer volumes and forecasts for production.

Gabe Moreen - *Merrill Lynch - Analyst*

And when that $100 million is spent you have to wait for the volumes to ramp up or is your cash flow all going to be hitting second quarter of '09 once you've spent that? That how you --?

Greg Smith - *DCP Midstream Partners - VP, Business Development*

Well, the forecast from producers and their increase drilling will have volumes coming on immediately when the project is up and running. We will also receive some incremental fees for processing volumes at Meeker once we have the first phase of the project completed. And so we will start seeing cash flows as soon as the project, the $100 million has been spent, and the project has been put into service.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay and final question from me on the Piceance from me in terms of the decommissioning of the Anderson Gulch plant, is that going, is that going to cost you some cash flow? I assume you're going to be more than making up for it with the expansion book? But will that cost you cash flow when you're diverting those volumes to Meeker?

Greg Smith - *DCP Midstream Partners - VP, Business Development*

When we have all the contracts signed we will issue a press release that goes into more detail but the decommissioning of the processing and Anderson Gulch will actually make the partnership more money. We will receive fees incremental to what we're receiving today for processing in addition to incremental fees for the expansion project and the incremental volumes associated with that.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, that's great, thanks.

Greg Smith - *DCP Midstream Partners - VP, Business Development*

And I would say lastly we will also save OpEx, operating costs associated with the processing ceasing at Anderson Gulch.

Gabe Moreen - *Merrill Lynch - Analyst*

Okay, thanks.

Mark Borer - *DCP Midstream Partners - President and CEO*

Thank you.

Operator

Our next question comes from Michael Blum at Wachovia.

Michael Blum - *Wachovia - Analyst*

Hi, good morning. Just, maybe back to the Haynesville connector project, can you just walk us through a little bit, the timeline of steps that'll just determine whether this is a successful project or not? Are you going to have an open season when you think that'll occur? When do you think you could, you'd know if you have a commitments or not and so forth?

Mark Borer - *DCP Midstream Partners - President and CEO*

Okay, I'll make just a couple of comments and I'll let Brian add --. Clearly the producers in the Haynesville Shale have very aggressive plans of -- people are projecting that no less than 30 rigs are heading to the region by the end of the year. There's forecasts out there of 60 rigs in 2009, as much as 100 rigs in 2010. Brian and his team will have a concentrated marketing period here because the producer community will definitely be very interested in establishing takeaway capacity to match up with their drilling plans, Brian.

Brian Frederick - *DCP Midstream Partners - Commercial VP*

Yes, I think I agree with that Mark, I think we will as far as an open season, we will not have a formal open season. We are, we've had significant discussions with producers and I think Mark's exactly right that to enable their takeaway capacity, timeline is critical to them. From our standpoint, we have chosen a route, we're well down the way on right away, and right away evaluation for that route. We've received definitive pipeline bids. As I said, we've been having significant discussions with producers. How we exactly match up producer commitments with our beginning to turn dirt, we haven't exactly decided yet. But we do expect the process to go very, very quickly. And we'll be having very significant discussions here probably over the next couple of weeks.

From a construction standpoint we do expect that we can have pipeline delivered in the second quarter of next year and commence construction shortly thereafter. We do expect that that timeline holds that we will be taking initial deliveries potentially in the third quarter of '09 with final construction complete in the first quarter of '10.

Michael Blum - *Wachovia - Analyst*

Great, that's helpful. Next question is on the organic growth projects, both Collbran and East Texas, number one what types of returns are you targeting there?

Mark Borer - *DCP Midstream Partners - President and CEO*

These are our organic growth type returns obviously much more attractive then acquisition, economic, we haven't provided specific guidance on the ranges that -- they're clearly attractive projects.

Michael Blum - *Wachovia - Analyst*

Okay.

Mark Borer - *DCP Midstream Partners - President and CEO*

I would say that probably a reasonable range to put out there is that they could, depending on timeframe and such, they are, their in the mid single digits.

Michael Blum - *Wachovia - Analyst*

Okay.

Mark Borer - *DCP Midstream Partners - President and CEO*

From a multiple viewpoint. Definitely double digit returns.

Michael Blum - *Wachovia - Analyst*

Okay. And in terms of just how, maybe getting at Gabe's question a little differently, in terms of how the cash flow will be spent, excuse me, the CapEx will be spent over the next two years. Can you give us an estimate of a growth CapEx budget for 2008 and 2009?

Mark Borer - *DCP Midstream Partners - President and CEO*

Well we've, I'll just, I'll touch on that just a little bit. We've said previously that we felt this asset made just before $50 million a year of organic spending. Clearly we're exceeding that expectation as we embark on the Lake (Meurbel) and East Texas project. We're, we've presently have approved and are executing a $100 million, over a $100 million of projects. Our plan is to really update our guidance from an organic growth spending around the footprint once we finalize our 2009 business plan and outlook. We'll do that later this year or our first call next year.

Michael Blum - *Wachovia - Analyst*

Okay. In terms of the Douglas system, can you give us a sense of what you think that the impact from a cash flow perspective could be in the third and fourth quarters?

Mark Borer - *DCP Midstream Partners - President and CEO*

In the, we have a plan here that we've outlined that can be executed in the next 60, 90 days. We think that that from an incremental cost viewpoint, from an OpEx and maintenance capital viewpoint, just setting aside the accounting treatment for a moment, would cost us $2 million to $3 million to address these, the critical repairs and increase the system pressures. And basically get back to moving all the bines on the system. We are obviously attempting to optimize the execution plan from a margin viewpoint and a downtime viewpoint. Clearly there will be some outages. We have not put a number on the margin impacts specifically. But we do think it's manageable in the context of overall business.

Michael Blum - *Wachovia - Analyst*

Okay. My last question is can you just give us an update on the CFO search?

Mark Borer - *DCP Midstream Partners - President and CEO*

We have made good progress on the search and I would expect to have a replacement or a new CFO in place in the near future. And by the time we have our next quarterly call you will obviously be hearing from that person.

Michael Blum - *Wachovia - Analyst*

Okay, thank you.

Operator

Our next question comes from [Helen Reyou] from Lehman Brothers.

Helen Reyou - *Lehman Brothers - Analyst*

Hi, good morning. Just one question on the Haynesville Connector, I think if I heard correctly, you said the total cost of the project may be around $600 million to $800 million. What type of return do you look at? Would it be similar to the other Midstream project return or would it be a little bit higher? I'd like to get your thoughts on that.

Mark Borer - *DCP Midstream Partners - President and CEO*

We would be targeting organic growth type returns. Obviously though if you get a project that's very fee based and longer term that return can come down some from the traditional organic projects which obviously are, can be well into the mid teens from a return viewpoint. We will gauge the returns that we achieve there associated with looking at where we believe is the overall risk and to contract tender and overall buying commitments that we receive from the producer community.

Helen Reyou - *Lehman Brothers - Analyst*

Okay.

Mark Borer - *DCP Midstream Partners - President and CEO*

Clearly better than acquisition returns we're obviously leveraging our existing infrastructure.

Helen Reyou - *Lehman Brothers - Analyst*

Okay and then another question was on your hedges. I think your comments is that the heavier NGL products are hedged with crude. But ethane and propane, so I guess those are hedged with product specific fixed price swaps. Is that correct?

Mark Borer - *DCP Midstream Partners - President and CEO*

No, let me go ahead and clarify that. What we do in our hedging program is that we have not hedged any of the ethane part of the barrel. And we have, depending on processing spreads and conditions, and how attractive spreads are we may have 1,500 barrels to 2,000 barrels a day of ethane that we float on.

And we do not hedge. We do have the ability to warm up our plants and such that we don't necessarily always have production at that level because we can optimize it on a processing spread viewpoint. Relative to the propane and the propane, butane and natural gasoline in the barrel we have used crude oil as a proxy for hedging that part of the barrel. So we do not, we have not generally gone to specific NGL hedges in a direct sort of way. We find that market to be very (illicit), definitely does not have a lot of depth beyond the first six months or so. So what we have done is used the crude oil as an instrument to hedge between the propane plus (inaudible).

Helen Reyou - *Lehman Brothers - Analyst*

Okay and I understand you are hedged out quite a bit up to I think 2013? But what are the, for the fixed price swaps, at what price level are you hedged? Could you share the rough levels for this year, next year?

Mark Borer - *DCP Midstream Partners - President and CEO*

On the, relative to your first comment, on the hedging, we are about 75% hedged as I mentioned earlier. That tails off by 2013 to about a 30% level. And relative to the price levels on the swaps, we do disclose those in our Q, or at least definitely in our K, in our 10-K. So you can see the history of those for 2008 those are roughly at about, not roughly, but very close to about $68.00 per barrel.

Helen Reyou - *Lehman Brothers - Analyst*

Okay, great, thank you.

Mark Borer - *DCP Midstream Partners - President and CEO*

Crude oil, thank you.

Operator

We have a question from Michael Blum at Wachovia.

Michael Blum - *Wachovia - Analyst*

Yes, thanks, just a couple of follow-ups. One, on the hedging, any thoughts to rehedging, I guess buying yourself out of your current hedge position and rehedging closer to the margin?

Mark Borer - *DCP Midstream Partners - President and CEO*

We have not, that's something we could clearly evaluate, I would not anticipate that we would do that. We do have hedges that are, we do have hedge percentages which are reduced over time so we will have an opportunity to layer hedges on as we move forward.

Michael Blum - *Wachovia - Analyst*

Okay and then the second question was just, given your reluctance right now to enter the capital market, assuming that the markets don't improve any time soon, could that be a hindrance in terms the ability to fund your organic projects down the road? Including the Haynesville project? In other words, is it possible that at some point you may have to turn down the project, or other projects, because you think funding's an issue?

Mark Borer - *DCP Midstream Partners - President and CEO*

Well, obviously we're going to have to keep a long term eye on capital markets. We have available term loan capacity to finance the [Meurbel], or not [Meurbel], sorry the East Texas gathering project as well as the Piceance expansion so we've got very good existing capacity there. We also have good sponsorship from BPP Midstream over time but relative to Haynesville we'll definitely have to keep a close eye on capital markets. But we expect conditions to improve at some point here. And clearly we think we've got some good organic and pretty good projects that we can execute on.

Michael Blum - *Wachovia - Analyst*

Thanks, Mark.

Mark Borer - *DCP Midstream Partners - President and CEO*

Thank you.

Operator

Our next question comes from Yves Siegel from Aroya Capital.

Yves Siegel - *Aroya Capital - Analyst*

Yes, good morning.

Mark Borer - *DCP Midstream Partners - President and CEO*

Good morning.

Yves Siegel - *Aroya Capital - Analyst*

I'm going to ask you just to elaborate on the opening of, when I believe you said that you didn't pursue the, you didn't execute the drop down at this time because you had the flexibility with the other organic growth projects. Could you elaborate on what you mean by flexibility because, I guess the way I see it is that the neat thing about the drop downs is that you make the acquisition and you have the immediate cash flow from the transaction. Whereas, obviously, with the organic growth projects, there is lag between the time that you make the investment and start receiving cash flow. So, could you sort of put that into context as far as what you mean by flexibility?

Mark Borer - *DCP Midstream Partners - President and CEO*

Well, clearly relative to the organic, we use some of the, we're going to be using some of the capacity we have under our term loan and under our facility to execute on those projects. I guess just at the end of the, from a flexibility viewpoint, we're not sitting there with a sponsor which needs the capital. Their relationship with us is one that is very constructive so we just felt from a timing viewpoint that the capital market situation had not improved and in some respects had deteriorated at least for a short period of time. So we felt that it was important to continue to execute as we look at organic markets. There may be, this market environment could, it could result in some attractive acquisitions from time to time. Obviously things are dynamic and there's lots of things happening out there so we just felt that we wanted to go ahead and execute under organic and wait for a little bit more conducive overall capital market environment.

Yves Siegel - *Aroya Capital - Analyst*

So, so --.

Mark Borer - *DCP Midstream Partners - President and CEO*

You are correct in that we, as we handle a drop down or an acquisition they can have immediate accretion so that's something we definitely consider as we look at them.

Yves Siegel - *Aroya Capital - Analyst*

Just my follow-up is, just to be more direct on it. I'm just curious if by flexibility you meant the ability to grow the distribution without the drop down? I didn't quite understand that you were tying the two to the outlook for distribution growth.

Mark Borer - *DCP Midstream Partners - President and CEO*

Not necessarily tie up the outlook to distribution growth but we would expect to continue to be able to grow the distribution. But as you look at -- as you go back to the drop down, it does provide immediate accretion and we felt that a drop down, quite frankly, could be delayed until we could provide stronger accretion by having improved financing around that drop down. So we think that was ultimately good for our investment.

Yves Siegel - *Aroya Capital - Analyst*

Thank you.

Operator

Our next question comes from Jessica Chipman at Tudor Pickering.

Jessica Chipman - *Tudor Pickering - Analyst*

If I can follow and I apologize you keep talking about this earlier on some of the calls and so I'll take if offline if you've already addressed it. On the Douglas gathering, can you what, exactly is the issue and how much pipeline is affected? Is gas shut in there? Just to give us some more color and again if you've already answered it, I apologize.

Mark Borer - *DCP Midstream Partners - President and CEO*

No, I can discuss that a little bit. We have roughly 20%, 25% or 20% to 30% of some volumes curtailed right now. Relative to some pipeline integrity testing that determined that we needed to replace probably about 5,000 foot of pipeline. There was some, roughly 15, 17 anomalies that we felt that needed to be fixed. We've estimated that it's going to take about 60 days, 60 to 90 days to execute on that. We're obviously hoping we can optimize it to a shorter time frame. And that that would cost us $2 million to $3 million from a expense and maintenance capital viewpoint as we progress those repairs. We do think that will return us to pretty close to having most of the volumes back to a normal operation and be able to operate the system pretty much as to normal volumes.

Jessica Chipman - *Tudor Pickering - Analyst*

Are you testing additional sections of the pipe as a result of this?

Mark Borer - *DCP Midstream Partners - President and CEO*

No, we actually we're able to test the entire length of the 16 inch system that runs north and south through the basin. So this is the result that we had in the testing.

Jessica Chipman - *Tudor Pickering - Analyst*

And do you have to go to the BLM or any regulatory body to get the permit to go in and do that replacement?

Mark Borer - *DCP Midstream Partners - President and CEO*

We have to, I'm not sure exactly of all the permits, I know we went to the Forest Service for Wyoming, I think went to the Forest Service and a Wyoming agency and we've received their approval to proceed with the work.

Jessica Chipman - *Tudor Pickering - Analyst*

Okay, thank you.

Mark Borer - *DCP Midstream Partners - President and CEO*

Thank you.

Operator

At this time we show no further questions. I'd like to turn the conference back over to Karen Taylor for any closing remarks.

Karen Taylor - *DCP Midstream Partners - IR*

Thanks, Amy, and thanks to everyone for your interest in the partnership. If you have any further questions please don't hesitate to give me a call. As a reminder you can access a replay of this webcast as well as a transcript on our website at www.dcppartners.com, thank you.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.