FINAL TRANSCRIPT

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DPM - Q2 2007 DCP MIDSTREAM PARTNERS LP Earnings Conference Call

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John Tysseland
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PRESENTATION

Operator

Welcome to the Second Quarter 2007 DCP Midstream Partners LP Earnings Conference Call.

At this time, all participants are in a listen-only mode. However, we will facilitate a question-and-answer session towards the end of this conference at which time you may press star, one to ask questions.

(OPERATOR INSTRUCTIONS)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host, Karen Taylor, Director of Investor Relations. You may proceed.

Karen Taylor - *DCP Midstream Partners - Director of Investor Relations*

Good morning, and welcome to the DCP Midstream Partners Second Quarter 2007 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, and Tom Long, Vice President and Chief Financial Officer.

Before turning 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 Web site 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 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 may 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, 2006 that's filed with the SEC on March 14, 2007, and it may be updated through subsequent quarterly filings.

In addition, during our discussion we will use various non-GAAP measures, including EBITDA and net income and EBITDA excluding non-cash marked-to-market activities, gross margin and distributable cash flow.

These measures are reconciled to the nearest GAAP measure and schedules at the end of the presentation starting with slide number 14. We ask that you read those slides as well.

And finally, a note about the presentation of our earnings. The Partnership completed the acquisition of Gas Supply Resources from DCP Midstream, the owner of our general partner, on November 1, 2006.

Since GSR was acquired from an affiliate, its historical results are included in the Partnership's results for all periods presented. Earnings for periods prior to the acquisition of GSR are allocated to predecessor operations.

And now I'll turn it over to Mark Borer.

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

Thanks, Karen. And good morning, everyone, and thanks for joining us. Regarding our agenda for this morning, I will provide a recap of a very busy quarter spent successfully executing our growth strategy, a review of our solid second quarter operating results, and a view of the coming months.

Tom Long will follow with a review of the second quarter numbers, including our financing and risk management activities, and then we'll be happy to take your questions.

I'll start with slide four. I know many of you are familiar with our recent growth activity, but just to recap the highlights of the quarter, we closed on the $10 million step-out acquisition of gathering assets from Laser Midstream near our North Louisiana Minden gathering facilities in April.

We closed on the $180 million acquisition of gathering and compression assets in southern Oklahoma from Anadarko in May. Since these assets are located in an area where DCP Midstream, the owner of our general partner, already has assets and operating personnel, we were able to easily integrate this asset into existing operations.

That gas is processed by a third party through early 2009, at which point we will have the opportunity to deliver the gas to a plant operated by DCP Midstream for processing.

We announced the $270 million drop-down from DCP Midstream, which includes a 25% interest in their East Texas gathering and processing complex, and their 40% interest in Discovery Producer Services. We closed that transaction effective July 1.

The East Texas complex includes a 780 million cubic-feet-a-day processing facility, about 900 miles of pipeline and the Carthage hub, which has aggregate delivery capacity of about 1.5 billion cubic feet per day.

These assets have been operated by Midstream since the acquisition of Union Pacific Fuels in 1999, so we have stepped into an ownership position that doesn't require an operations learning curve or integration efforts.

This is another benefit we enjoy with having one of the largest midstream players as our general partner. Current gathered and processed finds through our East Texas facilities are approximately 525 million cubic feet a day.

The Discovery assets are operated by Williams and include almost 300 miles of on- and offshore Gulf of Mexico pipelines, a 600 million cubic-feet-a-day processing facility, and a 32,000 barrel-a-day fractionator. The processing plant has current throughput volume of approximately 575 million cubic feet a day, which includes some third-party volumes processed on a temporary basis after the 2005 hurricane.

We announced the acquisition of Momentum Energy Group jointly with DCP Midstream in May in a transaction valued in total at $635 million.

The Partnership will be purchasing the Piceance and Powder River Basin assets for $165 million, with Midstream purchasing the Barnett Shale assets for the balance. Midstream is keeping the Barnett Shale assets due to the large capital requirement in the short term to expand those facilities. Clearly, the Momentum transaction demonstrates the benefit of our strong sponsorship.

The Piceance assets consist of the Collbran joint venture, which owns approximately 30 miles of pipeline, and a 60 million cubic-feet-a-day processing plant that is currently under expansion to 120 million cubic feet a day.

The other two joint venture owners, Plains Exploration and Delta Petroleum, are also the producers on the system, so we look forward to partnering with them to serve their growing needs to get their production to market.

The Powder River Basin assets consist of the Douglas system, with about 1,300 miles of pipe covering 4,000 square miles, with current volume of approximately 30 million cubic feet a day. We filed and received HSR approval so that transaction is on track to close during the third quarter.

We are working closely with the management of Momentum on the expansion of the processing plant at Collbran and other growth projects and we'll have more color on our plans for these assets once the transaction is closed.

All of this activity combined with solid operating results from our base business resulted in our decision to increase our quarterly distribution 14%, or nearly 40% year-over-year, as you can see on slide five.

We're very pleased to continue to deliver value to our unit holders through distribution growth and unit price growth, with our total return year-to-date over 35% and a total return over 125% since the IPO in December of 2005.

Moving on the Partnership's operating highlights on slide six, the second quarter provided another solid performance. Exclusive of the non-cash marked-to-market losses related to our commodity hedging activity, our EBITDA for both the quarter and year-to-date were up over 2006. Earnings were impacted by higher interest and depreciation expense associated with our acquisitions.

Let's take a look at the volumes across our various segments, starting with our natural gas services segment. On an overall basis, volume increases from the Lindsay and Ivan acquisitions were offset by a decrease in transportation activity at our Pelico intrastate pipeline system of about 30 million cubic feet a day quarter and about 15 million cubic feet a day year-to-date.

A significant portion of this shortfall will be offset by a minimum volume commitment with the shipper.

Our Ada gathering system volumes were also down slightly from the second quarter of last year but higher than the first quarter of this year, as Conoco Phillips, the largest producer on that system, continues to drill.

Moving on to the wholesale propane business, volumes are up for the quarter and year-to-date over last year partially due to cooler temperatures in 2007. The Midland terminal became operational late in the second quarter but was in the startup phase and did not contribute to margin in the quarter. Overall, this business model, supported by our multiple sources of supply, continues to flourish.

For our NGL logistics segment, the addition of the Wilbreeze volume starting in December 2006, as well as increased volumes on Black Lake, led to an overall increase in volume for the segment.

Before I turn it over to Tom, just a few comments on recent activities and what lies ahead for the Partnership. First of all, we announced in July that Steve Springer joined the Partnership's board of directors as an outside director.

Steve brings over 30 years of energy industry experience to the table, having held prior executive positions at Texas Gas Transmission, Transco and Williams Field Services. We're very pleased to have Steve join our board.

As I mentioned before, we expect the Momentum transaction to close during the third quarter, and we look forward to adding those assets to our portfolio.

To conclude, you've seen us expanding the Partnership footprint with the Lindsay, East Texas, Discovery and Momentum transactions. All together, we have closed or announced $625 million of growth acquisitions this quarter.

While we've been very busy, I can assure you that we continue to evaluate and pursue growth opportunities. We believe we have a unique set of capabilities to leverage the resources and expertise both within this team and within our general partner to be able to capture opportunities as they arise. We're excited about the future of the Partnership.

And with that, I'll turn it over to Tom to review the financials.

Tom Long - *DCP Midstream Partners - Vice President and CFO*

Thanks, Mark. And good morning, everyone. I'll start off with the quarterly and year-to-date results and then move on to a brief discussion of the financing and risk management activities that we went through during the quarter.

Let's start with slide number eight. Our operating results, as Mark mentioned, were impacted this quarter and year-to-date by non-cash marked-to-market losses on the derivatives, and these derivatives were primarily the result from the new derivatives that we entered into this quarter to manage the commodity risk associated with our $180 million purchase of the assets from Anadarko in May.

As we go through the operating results, I'm going to provide you with some results that exclude the marked-to-market losses for all the periods to give you a more apples to apples comparison.

Our net income for the three months ended June 30, 2007 were $500,000, compared to the net income of $8.3 million for the second quarter of 2006.

Year-to-date through June 30 of '07, net income was $13 million, as compared to $16.3 million for the same period in 2006.

Included in these assets for the three and six months ended June 30, '07 are $6.2 million and $6.3 million, respectively, of non-cash losses associated with the marked-to-market accounting treatment of derivative instruments. This compares to $400,000 and $500,000 of non-cash losses for the corresponding periods of 2006.

Without these non-cash losses, net income would have been $6.7 million and $19.3 million for the three and six months ended June 30th of 2007, as compared to $8.7 million and $16.8 million for the comparable periods in 2006.

The Partnership's EBITDA, excluding these non-cash losses, for the three and six months ended June 30 of 2007 would have been $15 million and $33.1 million, respectively, as compared to $12.9 million and $25.4 million for the comparable periods in 2006. So as you can see, EBITDA is up $2.1 million for the quarter and $7.7 million year-to-date over 2006.

So let's review the components of EBITDA starting with our gross margin results by segment. Looking at slide number nine, our natural gas services segment had second quarter 2007 gross margin of $16.9 million and year-to-date gross margin of $34 million, as compared to $18.2 million and $35.2 million for the corresponding periods in 2006.

The drivers of the quarter-on-quarter change are primarily due to the increases from our Lindsay acquisition as well as other higher commodity volumes and a shipper imbalance cash out.

These increases were offset by $5.8 million of derivative marked-to-market losses recorded in the second quarter of 2007.

For the six months ended June 30, 2007, as compared to the same period in the prior year, the drivers were primarily the same as they were for the quarter, offset primarily by the $5.6 million in derivative marked-to-market losses that we've experienced year-to-date.

On slide number 10, you'll see that the wholesale propane logistics segment gross margin is up $1 million for the second quarter of 2007, as compared to the second quarter of 2006, primarily due to the higher volume and higher unit margins from changing contract mix and our ability to capture lower-priced supply.

Year-to-date through June 30, 2007, gross margin increased $6.2 million over the comparable period in 2006, primarily due to the changing contract mix and our ability to capture lower-priced supply, increased volumes and the timing of lower cost or market inventory adjustments.

From the NGL logistics segment, on slide number 11, gross margin decreased $100,000 for the second quarter and increased $300,000 for the six months ended June 30, 2007, as compared to the same periods in 2006. Increases in the margin from our Wilbreeze pipeline that became operational in December 2006 were offset in the second quarter by changes in contract mix.

Operating and maintenance expense at a consolidated level increased $1.2 million for the quarter and $1.4 million year-to-date, as compared to the same periods in 2006. For the quarter-on-quarter comparison, the increase in expense in 2007 is due to higher labor and pipeline integrity cost and the addition of our Lindsay assets. Year-to-date, the increase is primarily due to startup cost and operating cost for our new Midland propane terminal.

General and administrative expense increased $2.3 million for the quarter and $2.4 million year-to-date in 2007, as compared to the same periods in 2006. These were primarily due to the increased transaction cost for the acquisition activity that we've referred to.

Rounding out the EBITDA, you'll see the increases in equity earnings of $200,000 and $400,000, respectively, for the three and six months ended June 30th, 2007.

Primary drivers are the increased volumes and the decreased operating expense on the Black Lake pipeline.

Depreciation and amortization expense increased $1.4 million for the quarter and $1.5 million year-to-date in 2007 over the same periods in 2006, once again primarily due to the acquisitions and the organic growth.

And finally, net interest expense increased $2.7 million for the quarter and $3.7 million year-to-date over 2006 due to the increased debt balances associated with these acquisitions.

Mark mentioned the increase in our distribution for the quarter to $0.53 per unit, or $2.12 on an annual basis. Our distribution cash flow for the six months ended June 30, 2007 was $25.8 million, or 1.2 times the amount required to cover this distribution, so still very strong coverage ratio here.

The non-cash marked-to-market losses associated with the accounting for our derivative instruments were excluded from our distributable cash flow number.

Let's move on to the financing activity in the quarter. As Mark noted, we had a very busy quarter, and here are the financing highlights you'll see on slide number 12.

We filed the $1.5 billion Universal Shelf Registration Statement. We did that in April.

We closed the approximately $180 million purchase of Lindsay assets from Anadarko and the related $130 million private placement of equity. Those units -- that placement was priced at $43.25 per unit.

In May we announced, along with DCP Midstream, the purchase of the Momentum asset in a transaction that is expected to close in the third quarter.

The Partnership's portion of that transaction is valued at $165 million, and as part of the negotiations with the sellers we entered into a unit purchase agreement with them to fund $100 million of our purchase at $42 per unit. The remainder will be financed with approximately $17 million in units going to Midstream and the balance with debt.

In June we expanded the credit facility to a total borrowing capacity of $850 million and extended the term to June of 2012. The amended facility significantly enhances the Partnership's ability to fund its recently closed or announced acquisition and provides flexibility in financing the growth of the partnership.

And of course, effective July 1st we closed on the $270 million drop-down of the East Texas and Discovery equity interest from DCP Midstream, and that transaction was financed with approximately $28 million in units going to Midstream and the balance with debt.

Let's move to the risk management activities. The two main take-aways for this discussion is first is that we continue to layer on hedges to cover a significant percentage of our commodity exposure for a period up to 6.5 years out.

And effective, of course, July 2007 we assumed a derivative contract from DCP Midstream which hedged a significant percentage of the commodity exposure associated with our interest in the East Texas and Discovery assets.

The second main point is that we have decided, effective July 1st, for the third quarter, to discontinue the hedge accounting for all the commodity derivative activity.

Notably, the Lindsay hedges we entered into this quarter were accounted for under marked-to-market method, so this change really just relates to the North Louisiana hedges that we had in place from the prior quarters. Marked-to-market accounting obviously will cause our non-cash volatility in our earnings.

To conclude, the acquisitions closed to date caused our contract mix to change slightly. We estimate that our current mix has about 60% that is subject to commodity price exposure and about 40% that is fee-based. And of that 60% exposed to commodity price fluctuations, we have hedged approximately 80% of that out through 2013.

So with that, we'll go ahead and open it up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(OPERATOR INSTRUCTIONS)

And our first question comes from the line of John Tysseland of Citigroup. You may proceed.

John Tysseland - *Citigroup - Analyst*

Good morning.

Tom Long - *DCP Midstream Partners - Vice President and CFO*

Good morning.

John Tysseland - *Citigroup - Analyst*

Real quick, following the most recent close of your acquisition, how much more room do you have on your new credit facility, the $850 million credit facility that you entered into?

Tom Long - *DCP Midstream Partners - Vice President and CFO*

Yes, John, after these acquisitions, our current debt balance is a little less than $500 million right now.

After we close on this next Momentum one, I will tell you that will probably be -- in the low $400 million range is where we'll be, so you should see from a capacity -- and let me be sure I break out here -- the revolver piece of it is $600 million.

The term loan piece to accommodate for the Lakehead debt, let's call it, for the secured term loans, is $250 million. So we anticipate that we'll use some of each one of those.

John Tysseland - *Citigroup - Analyst*

So following the close of that, what do you think you would have on -- in terms of an acquisition facility and more or less a normal operating revolver, following -- I guess following the close of those acquisitions?

Tom Long - *DCP Midstream Partners - Vice President and CFO*

Right. I would say -- and just giving you kind of rough numbers -- that we'll have about $200 million under the revolver, and of course, the term loan we look as pre-funded growth capital.

So let's say that you have about $200 million there, somewhere between $200 million and $250 million that will be kind of like pre-funded growth capital that we can use for third-party acquisitions.

John Tysseland - *Citigroup - Analyst*

Okay, perfect. And then the costs -- what are the terms, I guess, in terms of the rate on that? How is that determined?

Tom Long - *DCP Midstream Partners - Vice President and CFO*

The rate on that is determined, of course, by a band. That band is -- based upon your leverage ration is how it's priced. We currently are priced in the band that is 42.5 basis points over LIBOR.

John Tysseland - *Citigroup - Analyst*

Okay. And then if -- do you anticipate funding any more equity at this point, potentially, following the close, or are you -- do you feel that your balance sheet is pretty well taken care of at this point?

Tom Long - *DCP Midstream Partners - Vice President and CFO*

No, John, we would anticipate probably in the fourth quarter, after we close on the Momentum -- we would anticipate some equity offering there.

John Tysseland - *Citigroup - Analyst*

Okay. Really, that's about all I have. Thanks.

Tom Long - *DCP Midstream Partners - Vice President and CFO*

All right. Thank you.

Operator

(OPERATOR INSTRUCTIONS)

And our next question comes from the line of Rick Gross of Lehman Brothers. You may proceed.

Rick Gross - *Lehman Brothers - Analyst*

Good morning. I wonder if you could just kind of give us a rundown of how the drilling's holding up behind all the various systems, given that, you know, gas prices have come in a little bit.

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

Sure, Rick. This is Mark. Thanks for joining us.

I mean, as we kind of look out at our assets, I would say on the North Louisiana assets we continue to see solid drilling activity overall. I would say that it's -- we don't see that it's necessarily up in North Louisiana from drilling activity, but they're continuing to maintain a pretty high sustained base. I would -- I think that from the second half of '06 to the first half of this year, the drilling permits are really pretty much kind of right on top of each other.

And we obviously just acquired the -- or just moved over the 25% interest in July here with East Texas. I would say on that front the rig activity in the district that the bulk of our assets are in are up about 15%, so we see pretty good activity there.

If you go to the mid continent and you look at the Lindsay asset that we closed on in May, the new owner of those assets -- or the EMP properties is Exco Resources, and we believe that they'll be moving a couple rigs back into those properties by late this year or early next year, based on some of our discussions with them. Anadarko had not been drilling there in the last 18 months or so as they were restructuring.

In the Rockies, with the -- we haven't closed yet on Momentum, but obviously those are in very robust areas. We haven't really seen the producers cut back any materially yet in any of our regions.

Obviously, there's very high oil prices and good processing margins and liquid recovery. You know, I think people -- I'm sure they're watching gas prices in their capital budgets as they go forward.

Rick Gross - *Lehman Brothers - Analyst*

Okay. Just -- do you anticipate taking any different -- I don't know -- attitude toward the East Texas facilities? I mean, obviously, they're kind of still in the same hole.

But there's an awful lot of drilling that's been done there, an awful lot of activity that has taken place, and in -- given the original footprint that Duke had, I've always been surprised that there wasn't a lot more activity built off of that base.

Is there any change or ability to -- I don't know -- I'll guess -- say be more aggressive, given that historical footprint, than the recent past?

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

I would say that -- I mean, we feel that we've been competitive out there over time. Clearly, having the introduction of the MLP capital to the joint venture and particularly that footprint, I think that will provide us a broader set of opportunities.

We've got a good competitive position there. Obviously, it's a very active area. We continue to see a lot of good drilling -- Cotton Valley, Horizontal and [Impeak]. So we believe that there will be opportunities to utilize more of the underutilized capacity there. And I would say over time that the introduction of the MLP's ownership or the partner's ownership of that will expand our portfolio of opportunities.

Rick Gross - *Lehman Brothers - Analyst*

Okay. One last unrelated question. Tom mentioned that you, as part of natural gas services, had a shipper imbalance contribute to the quarter. Order of magnitude, how big was that?

Tom Long - *DCP Midstream Partners - Vice President and CFO*

I want to say it was about $400,000 or $500,000 for the -- I want to say that's -- I can't -- I'll need to check, but I believe that's for the first half, about $400,000 to $500,000.

Rick Gross - *Lehman Brothers - Analyst*

Okay. It's a rounding error. Okay. Thank you.

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

Thank you.

Operator

And there appears to be no further questions at this time.

I would now like to turn the call over to Karen Taylor for any final remarks.

Karen Taylor - *DCP Midstream Partners - Director of Investor Relations*

Great. Thanks to everyone for your interest in the Partnership. If you have further questions, please don't hesitate to give me a call.

And as a reminder, you can access a replay of this webcast as well as a transcript via our Web site at www.DCPPartners.com. Thanks. Have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and have a great day.