FINAL TRANSCRIPT

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DPM - Q4 2006 DCP MIDSTREAM PARTNERS LP Earnings Conference Call

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CORPORATE PARTICIPANTS

Karen Taylor
DCP Midstream Partners, LP - Director of IR

Mark Borer
DCP Midstream Partners, LP - President and CEO

Tom Long
DCP Midstream Partners, LP - VP and CFO

CONFERENCE CALL PARTICIPANTS

Ron Londe
A.G. Edwards - Analyst

John Tysseland
Citigroup - Analyst

Barry Glacier
- Private Investor

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter 2006 DCP Midstream Partners, LP Earnings Conference Call. My name is Candace, and I will be your coordinator for today.

[OPERATOR INSTRUCTIONS]

As a reminder, ladies and gentlemen, this conference is being recorded. I would now like to turn the presentation over to your host for today's conference, Director of Investor Relations, Miss Karen Taylor. Please proceed, ma'am.

Karen Taylor - *DCP Midstream Partners, LP - Director of IR*

Thank you, Candace. Thanks, and good morning, everyone. Welcome to the DCP Midstream Partners fourth quarter and year-end 2006 earnings release conference call. Today, you will 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'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. 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 in the webcast icon. Please review the second slide in the deck. It 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 affect our business results, please review our Form 10-K from year ended December 31, 2005 as filed with the SEC on March 1, 2006 and our most recent 10-Q as filed with the SEC on November 14, 2006. In addition, during our discussion, we will use various non-GAAP measures, including EBITDA, gross margin, and distributable cash flow. These measures are reconciled to the nearest GAAP measure and scheduled at the end of the presentation starting with slide number 11. We ask that you read this slide, as well.

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And finally, a couple of notes about the presentation of our earnings. DCP Midstream Partners completed its initial public offering of common units on December 7, 2005. So, earnings for periods prior to the date of the initial public offering are attributable to predecessor operations. [Inaudible] subsidiaries and assets of DCP Midstream, LLP, formerly Duke Energy Field Services, LLP, the owner of the partnership's general partner, which were contributed to the partnership in the initial public offering.

Additionally, the partnership closed on the acquisition of Gas Supply Resources on November 1, 2006. Since GSR was acquired from an affiliate, its acquisition was accounted for using pooling accounting rules. Accordingly, GSR's historical results are included in the partnership results for both 2005 and 2006.

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

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

Thanks, Karen, and good morning, everyone, and thank you for joining us. I will provide an overview of our 2006 operating results, then an update on our business. I'll then turn it over to Tom and he will go through a more detailed look at the numbers. And then, we'll be happy to take your questions.

I'll start with slide number four of the deck. We are very pleased with our operating results in 2006. Our gas plant and NGL pipeline proved good, remained strong throughout the year with a favorable commodity and drilling environment. In additional to the solid performance of the base business, we were able to capture certain additional margin by optimizing processing and gas marketing activities across our plants in an intrastate pipeline.

We have a very experienced supply and marketing group and they are continuously looking for ways to create value for the business, whether it be optimizing our product slate to processing or utilizing their market knowledge to maximize value from basis differentials across our pipeline systems. Other key accomplishments this year were the close of our acquisition of Gas Supply Resources, our wholesale propane logistics business in the Northeast U.S., and completion of our Wilbreeze NGL pipeline which began flowing in December.

Tom will go through the numbers in detail here, shortly. Prior to doing that, I would like to highlight a few bottom line results. Our net income for the year was $33 million. And to put that in perspective, our IPO prospectus forecasted net income of $17.3 million for the year. The strong cash flow from our operations allowed us to increase our quarterly distribution rate by almost 23%. Combined with the increase in our unit price, we provided our unitholders with a total return of 47% in 2006. So, it goes without saying that we're happy with what we were able to do this past year.

So, what's ahead for 2007? The first question is probably can you do that again? Under the right circumstances, anything is possible, but I would caution you that although our base business results wholly supported our 23% increase in distributions during 2006, we maintained appropriate coverage on distributions, because we recognized that some of the upside we achieved is atypical and non-recurring. With that said, we are very excited about the opportunities we have in 2007.

We've expanded the diversity of our operations with the addition of the wholesale propane business, which we believe provides many opportunities for continued growth by applying that business model to new areas. As previously announced, we are working at the approximately $250 million acquisition from our general partner, and that is still on track for a late second quarter close. We are not prepared at this time to disclose the assets being considered, and once we complete reviews with our boards and receive the appropriate approvals, we will disclose more information.

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

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Tom Long - *DCP Midstream Partners, LP - VP and CFO*

All right. Good morning, everyone. I'm going to take a slightly different approach this time since I know you've all read the press release, and keep this discussion at a fairly high level so we can get to your questions. So, why don't we turn to slide number six. As you can see here, DCP Midstream Partners' net income did decrease by $8.6 million for the quarter and $11.5 million for the year, and this is in comparison to our predecessor company 2005 results. There are just a few key contributors to the differences between the years. Why don't I just bullet point theses.

The first is, the upside that we were able to capture in 2006, from the very favorable ethane to natural gas processing spread. Next, was the high commodity prices and the throughput volumes in 2006. And remember, those commodity prices are -- that we're able to achieve in 2006 over 2005 were the levels that we hedged at, at the time of the IPO.

Next, we have, of course, the upside that we were able to capture in the fourth quarter of '05 from the marketing activity across PELICO, our intrastate pipeline, and that we were not able to repeat completely into 2006, although we did enjoy some upside there on that basis differential.

Changes in the unit margin and sales volumes on our wholesale propane logistics business -- GSR, we refer to it. We did have higher general and administrative expense. This if from the public company costs along with labor and benefits. And then, of course, the interest cost for the debt we incurred in conjunction with our December 2005 IPO. If you recall, there was no debt allocated into the predecessor assets prior to that IPO in 2005.

Our distributable cash flow for the quarter was $13 million and $44 million, year-to-date. I would remind you that accounting rules require that we pool GSR's operations and our financial results for the full year, even though the partnership [acquired] it from our general partner on November 1, 2006. We increased our quarterly cash distribution of 6.2% to $0.43 per unit for the fourth quarter, up from $0.405 in the third quarter.

Our total distribution coverage remains strong at 1.7 times for the quarter and 1.6 times for the year. We've been very pleased with performance of our assets and the distribution increases that we've been able to provide unitholders, year to date. Now, let's take a closer look at the margin by segment, starting to slide number seven, for our natural gas services segment.

We reported gross margin of $19.4 million for the fourth quarter of 2006, compared to $27.6 million for the fourth quarter of 2005. Of this $8.2 million decrease, the lion's share of it is attributable to the decrease in the marketing margins across our PELICO system. As you recall, the basis differentials between East Texas and East Louisiana after the Gulf Coast hurricanes in 2005 was as much as $2 per MMBtu.

Our PELICO system is positioned to move the gas across Northern Louisiana to the Perryville Hub, where it interconnects with pipelines flowing to the Northeast market. This allowed us to capture a lot of upside margin. The absence of these atypical margins in the fourth quarter of 2006 was the primary driver for the decrease. We did have a positive impact due to the higher plant throughput and higher NGL and condensate prices.

For the year, gross margin in our natural gas services segment increased $3.9 million to $75.3 million. This was primarily due to some favorable ethane-to-gas processing spreads, the higher condensate prices in the increased plant throughput, again, partially offset by the decrease in marketing margins. Turning to slide number eight, looking at our wholesale propane logistics segment. Our gross margin increased $900,000 for the quarter, due to greater unit margins, partially offset by decrease in sales volumes.

For the year, margins decreased by $5.8 million, and this was primarily due to the impact of the mild temperatures in the Northeast in 2006, and some inventory adjustments that we took in 2006. Inventory adjustments are due to some accounting rules that require you to report your inventory at the lower of cost or market, and are non-cash adjustments. We have hedged our inventory to lock in our margins, so the impact of these increases is primarily just a timing issue.

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For our NGL logistics segment on slide number nine, gross margins decreased by $200,000 in the fourth quarter of 2006, compared to the same period in 2005. This was primarily due to changes in the contract mix from differences in the origination points of the volumes. Our Wilbreeze pipeline began flowing in December, but one of the plants connected to Seabreeze had some downtime during the quarter.

For the year, gross margin on Seabreeze is up by $300,000, primarily due to the increased volumes. Operating and maintenance expense increased in our Seabreeze pipeline for both the quarter and the year-to-date, compared to prior year primarily due to pipeline integrity costs. I will say that the testing on that pipeline is complete now, and the repairs were minimal, and they're likewise complete.

I think with that, I'll go ahead and turn it back over to Karen and we'll address questions.

Karen Taylor - *DCP Midstream Partners, LP - Director of IR*

All right. Thanks, Tom. Candace, do we have any questions on the line?

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

Our first question comes from the line of Ron Londe of A.G. Edwards. Please proceed.

Ron Londe - *A.G. Edwards - Analyst*

Thank you. Yes, you were talking about the ethane-to-gas spreads, and we all know how they were pretty attractive in 2006. What's your feel for 2007 going forward?

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

We would -- Ron, good morning. This is Mark Borer. We would expect that the ethane-to-gas processing spreads would be somewhat lower in 2007 at this point. We had really a situation in '06 where there were near record processing spreads, and it seems at this point that the market is adjusting somewhat. We have seen those somewhat tempered. I would say they're still attractive from a historic viewpoint, but definitely they have narrowed somewhat prior -- or they have narrowed somewhat compared to '06.

Ron Londe - *A.G. Edwards - Analyst*

Okay. Do you expect that mainly to hit in the second and third quarter?

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

It's very difficult to kind of forecast the seasonality that may happen relative to gas and crude prices. We definitely had some narrowing of it in the fourth quarter of '06 and that has carried somewhat into current day markets. But trying to predict how gas and crude might relate to each other throughout the year is somewhat difficult.

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Ron Londe - *A.G. Edwards - Analyst*

Yes, tell me about it.

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

Yes, you do have pretty -- as you well know, you have a pretty plentiful gas inventory situation right now, which could bode for reasonable processing spreads. But that's about the way we see it at this point.

Ron Londe - *A.G. Edwards - Analyst*

Okay. From the standpoint of the propane side of the business, what kind of margins were you getting on the propane? You said they were a little higher.

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

Well, for the calendar year, you can work through the statistics there. We were about -- I think the statistics will show right around $0.05 per gallon for '05 -- excuse me, for 2006 results.

Ron Londe - *A.G. Edwards - Analyst*

Those are pretty good margins for wholesale. Do you expect that to continue into 2007?

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

We are not, at this time with respect to 2007, do not plan to update our guidance on the business. We do think that we do have a business model from a supply portfolio viewpoint, and the fact that we can -- our supply portfolio has rail pipeline and import terminal capabilities, we feel that we've got a business model that can support the historic margins that we experience in the business.

Ron Londe - *A.G. Edwards - Analyst*

Okay. Thank you.

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

Sure. Thanks, Ron.

Operator

[OPERATOR INSTRUCTIONS]

Our next question comes from the line of John Tysseland of Citigroup. Please proceed.

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John Tysseland - *Citigroup - Analyst*

Thank you.

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

Good morning.

John Tysseland - *Citigroup - Analyst*

Real quick could you quantify at all the benefit in 2007 from [processing] versus kind of the current market? Maybe just give us an idea of -- given the different processing environments last year versus this year, what we're experiencing now, what kind of a cash flow delta you would expect between those types of markets on an annualized basis?

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Sure, and good morning, John. This is Tom. You know, I guess the way we kind of look at this is if you look overall, and I know we've referred to in the opening remarks here about some of the atypical type activity, and we really kind of lumped some of that together, and that's going to be those three categories of everything from that basis differential that we've seen from East Texas to East Louisiana.

Of course, the ethane frac that we were just discussing, and then you're going to have some price. I'll probably put it in those three big categories there. And I'd say, John -- and you have to make a lot of assumption in this as to where you think -- kind of where prices are going to be, etc. But I would say that number that we were probably able to appreciate on the upside that we will sure reach [degree] capture in '07 will probably be somewhere in probably about the $8 million to $10 million range. Does that help you?

John Tysseland - *Citigroup - Analyst*

No, that's certainly what I was looking for. I just kind of wanted it in order of magnitude of kind of the market last year, versus kind of the current market that we're seeing today.

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Okay.

John Tysseland - *Citigroup - Analyst*

Yes, that answers, because we have seen processing spreads come down. And also, that basis is not quite what it was, last year, as well, and just kind of being able to forecast a little bit better versus last year. Also, with crude prices coming down and NGL prices coming down a little bit over the course of the last six months, did that help at all your [wholesale] propane margin in that business?

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

I would say that -- This is Mark, again, John. Good morning. I would say that, generally, when prices come down, it could obviously have -- it can provide more of a comfort with people in some of their business plans. Some of the -- we do certain fixed price

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sales with entities. I think it, they feel a little more willingness to make those type of commitments. I think it does take some pressure off things and can be helpful from the viewpoint of the market environment that we're in.

John Tysseland - *Citigroup - Analyst*

Okay. And then, my other question is regarding hedges. If we look to your filing, it shows your hedging, quantities that you hedge each year kind of roll off, marginally, year-over-year. Is that something that you plan updating? Or, are you pretty comfortable with the way that your hedging has kind of decreasing over time, with your system at least the way it stands today? Or, do you plan on layering in additional hedges?

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

John, this is Tom, again. We do plan to layer on additional hedges. As of right now, what we've done is, we have layered up a fairly small amount of crude oil for 2011. So, if you remember at the time of the IPO, we have hedged out through December of 2010. We have layered on that one piece. We've layered on at about 68/50 a few months ago, and we are looking for opportunities as they arise when to layer on additional hedges. And you could see us go out to as far as maybe even seven years or so if the opportunity is there. But by all means, we do watch that, and we'll jump on that when we can.

John Tysseland - *Citigroup - Analyst*

Fair enough. And the last question is regarding asset acquisitions. I know it's kind of a touchy subject, but when you look at your current asset base, and the propane additions that you've made are pretty stable cash flow generating assets, would you potentially go out and look at additional assets that might have a little bit more commodity price exposure where you'd have the hedge further out in the future, and kind of maybe a similar asset to kind of your [Mendit] system? Is that still something that you would think about acquiring?

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

Yes. This is Mark, again. We are open to those type of assets. Our current portfolio of assets is roughly 50% fee based and 50% commodity sensitive. If we see a quality asset that has -- has commodity exposure, and we have a good base plan in hedging that commodity risk and converting it to fee and it's an attractive asset for us, we are definitely open to that as long as it's a quality asset. We think it's with what we're trying to do, strategically.

John Tysseland - *Citigroup - Analyst*

All right. Fair enough. Thank you, very much.

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

Thank you.

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Thank you, John.

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Operator

[OPERATOR INSTRUCTIONS]

Our next question will come from the line of [Barry Glacier], private investor. Please proceed.

Barry Glacier - - *Private Investor*

Hi. How are you guys?

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Fine. How are you?

Barry Glacier - - *Private Investor*

Pretty good, great to be a unitholder in your company. My question is, what are our present plans for follow-on offering of common stock or bond offerings?

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Well, you know, what we've got announced out there right now, Barry, is that we'll be closing on that $250 million of acquisition from our general partner by June. And based on where we are right now as far as our balance sheet and our leverage ratio, we've obviously got very strong coverage there. But based upon our size and based upon the size of this acquisition, I think you could see us -- and I can't give you any exact time right now. We don't have it completely nailed down, but you could see us out there before -- about the time that closes or before.

Barry Glacier - - *Private Investor*

Let me make an additional comment. From the point of view of a private investor, are most impressed with our coverage ratio. And being a private investor, that's something that we're very, very concerned about, that we maintain this kind of a great coverage ratio which is far better than most of our competing MLPs. And it gives the private investor a lot of comfort as to the acumen of the management's financial capabilities which we're just very impressed with here.

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Okay.

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

We appreciate that support, obviously. We will continue to manage this business, and try to -- and obviously, we have a strategic plan to be a disciplined acquirer in a growth MLP. We obviously want to manage our coverage ratios appropriately as we manage our business. So, thank you for your support.

Barry Glacier - - *Private Investor*

And thank you for the way you manage your business that I have confidence in my distributions.

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

Okay. Thank you.

Tom Long - *DCP Midstream Partners, LP - VP and CFO*

Thanks, Barry, for the kind comments.

Operator

Ladies and gentlemen, this concludes the question-and-answer portion of today's conference. I will turn it back to management for any closing remarks.

Karen Taylor - *DCP Midstream Partners, LP - Director of IR*

This is Karen Taylor, again. I'd like to thank everyone who joined us for the call this morning, and we'll look forward to future discussions. As a reminder, you can access a replay of this webcast, as well as a transcript via our website at www.dcppartners.com. Thanks, and have a great day.

Operator

Thanks for your participation, ladies and gentlemen. You may now disconnect. Have a wonderful day.

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