DCP Midstream Partners, LP
Form 10-Q
August 09, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission File Number: 001-32678

DCP MIDSTREAM PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**03-0567133**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

370 17th Street, Suite 2775 Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (303) 633-2900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of August 5, 2010, there were outstanding 34,608,183 common units representing limited partner interests.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010

TABLE OF CONTENTS

Item		Page
	PART I. FINANCIAL INFORMATION	
1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009	1
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2010 and 2009	2
	Condensed Consolidated Statements of Comprehensive Income (loss) for the Three and Six Months Ended June 30, 2010 and 2009	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009	4
	Condensed Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2010 and 2009	5
	Notes to the Condensed Consolidated Financial Statements	6
2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
3.	Quantitative and Qualitative Disclosures about Market Risk	64
4.	Controls and Procedures	68
	PART II. OTHER INFORMATION	
1.	Legal Proceedings	68
1A.	Risk Factors	68
6.	Exhibits	70
	Signatures	71
	Exhibit Index	72
	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	
	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	
	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	
	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	

Table of Contents

GLOSSARY OF TERMS

The following is a list of certain industry terms used throughout this report:

Bbls	barrels
Bbls/d	barrels per day
Btu	British thermal unit, a measurement of energy
Frac spread	price differences, measured in energy units, between equivalent amounts of natural gas and natural gas liquids
Fractionation	the process by which natural gas liquids are separated into individual components
MMBtu	one million British thermal units, a measurement of energy
MMcf/d	one million cubic feet per day
NGLs	natural gas liquids
Throughput	the volume of product transported or passing through a pipeline or other facility

Table of Contents

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Our reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as may, could, project, believe, anticipate, expect, estimate, potential, plan, forecast and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2009, as well as the following risks and uncertainties:

- the extent of changes in commodity prices, our ability to effectively limit a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price and producers access to capital on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;
- general economic, market and business conditions;
- the level and success of natural gas drilling around our assets, the level and quality of gas production volumes around our assets and our ability to connect supplies to our gathering and processing systems in light of competition;
- our ability to grow through acquisitions, contributions from affiliates, or organic growth projects, and the successful integration and future performance of such assets;
- our ability to access the debt and equity markets, which will depend on general market conditions, inflation rates, interest rates and our ability to effectively limit a portion of the adverse effects of potential changes in interest rates by entering into derivative financial instruments, our ability to comply with the covenants to our credit agreement, or the Credit Agreement, and our ability to maintain our credit ratings;
- our ability to purchase propane from our principal suppliers and make associated profitable sales transactions for our wholesale propane logistics business;
- our ability to construct facilities in a timely fashion, which is partially dependent on obtaining required construction, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for supplies;
- the creditworthiness of counterparties to our transactions;

- weather and other natural phenomena, including their potential impact on demand for the commodities we sell and the operation of company owned and third-party-owned infrastructure;
- additions and changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment, including climate change legislation, or the increased regulation of our industry;
- our ability to obtain insurance on commercially reasonable terms, if at all, as well as the adequacy of the insurance to cover our losses;
- industry changes, including the impact of consolidations, increased delivery of liquefied natural gas to the United States, alternative energy sources, technological advances and changes in competition; and
- the amount of collateral we may be required to post from time to time in our transactions, including changes resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2010	December 31, 2009
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4.8	$ 2.1
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $0.7 million and $0.5 million, respectively	43.4	78.7
Affiliates	61.0	73.8
Inventories	19.6	34.2
Unrealized gains on derivative instruments	2.8	7.3
Assets held for sale	1.6	
Other	1.5	1.6
Total current assets	134.7	197.7
Restricted investments		10.0
Property, plant and equipment, net	1,008.5	1,000.1
Goodwill	92.1	92.1
Intangible assets, net	58.9	60.5
Investments in unconsolidated affiliates	109.8	114.6
Unrealized gains on derivative instruments	5.2	2.0
Other long-term assets	4.0	4.5
Total assets	$ 1,413.2	$ 1,481.5
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 67.0	$ 85.5
Affiliates	19.3	43.1
Unrealized losses on derivative instruments	30.3	41.5
Accrued interest payable	0.8	0.7
Other	23.4	20.3
Total current liabilities	140.8	191.1
Long-term debt	615.0	613.0
Unrealized losses on derivative instruments	39.4	58.0
Other long-term liabilities	14.2	14.0
Total liabilities	809.4	876.1
Commitments and contingent liabilities		

Equity:		
Common unitholders (34,608,183 units issued and outstanding)	419.1	415.5
General partner unitholders	(5.8)	(5.9)
Accumulated other comprehensive loss	(33.7)	(31.9)
Total partners equity	379.6	377.7
Noncontrolling interests	224.2	227.7
Total equity	603.8	605.4
Total liabilities and equity	$ 1,413.2	$ 1,481.5

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Millions, except per unit amounts)			
Operating revenues:				
Sales of natural gas, propane, NGLs and condensate	$ 93.2	$ 71.8	$ 328.6	$ 229.0
Sales of natural gas, propane, NGLs and condensate to affiliates	134.8	101.9	269.8	201.8
Transportation, processing and other	22.1	20.7	43.7	37.4
Transportation, processing and other to affiliates	4.9	3.5	10.6	7.1
Gains (losses) from commodity derivative activity, net	22.8	(44.0)	28.8	(36.3)
Losses from commodity derivative activity, net affiliates	(0.3)	(1.9)	(0.3)	(2.6)
Total operating revenues	277.5	152.0	681.2	436.4
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	178.1	110.6	369.6	248.4
Purchases of natural gas, propane and NGLs from affiliates	27.6	37.7	168.9	116.8
Operating and maintenance expense	20.6	17.1	39.6	33.3
Depreciation and amortization expense	18.7	16.3	36.5	30.9
General and administrative expense	3.4	2.0	7.1	5.2
General and administrative expense affiliates	4.8	5.1	9.7	10.5
Other income	(0.5)		(0.5)	
Other income affiliates	(3.0)		(3.0)	
Total operating costs and expenses	249.7	188.8	627.9	445.1
Operating income (loss)	27.8	(36.8)	53.3	(8.7)
Interest income		0.1		0.3
Interest expense	(7.3)	(7.0)	(14.5)	(14.3)
Earnings from unconsolidated affiliates	6.6	3.7	14.5	2.6
Income (loss) before income taxes	27.1	(40.0)	53.3	(20.1)
Income tax expense	(0.1)		(0.4)	(0.1)
Net income (loss)	27.0	(40.0)	52.9	(20.2)
Net income attributable to noncontrolling interests	(1.0)	(2.1)	(1.1)	(0.8)
Net income (loss) attributable to partners	26.0	(42.1)	51.8	(21.0)
Net loss attributable to predecessor operations				1.0
General partner unitholders interest in net income	(4.2)	(2.7)	(8.0)	(5.9)
Net income (loss) allocable to limited partners	$ 21.8	$ (44.8)	$ 43.8	$ (25.9)
Net income (loss) per limited partner unit basic and diluted	$ 0.63	$ (1.41)	$ 1.27	$ (0.86)
Weighted-average limited partner units outstanding basic and diluted	34.6	31.7	34.6	30.0

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Millions)			
Net income (loss)	$ 27.0	$ (40.0)	$ 52.9	$ (20.2)
Other comprehensive loss:				
Reclassification of cash flow hedge losses into earnings	5.6	4.7	11.6	9.2
Net unrealized (losses) gains on cash flow hedges	(5.8)	4.8	(13.4)	0.3
Total other comprehensive (loss) income	(0.2)	9.5	(1.8)	9.5
Total comprehensive income (loss)	26.8	(30.5)	51.1	(10.7)
Total comprehensive income attributable to noncontrolling interests	(1.0)	(2.1)	(1.1)	(0.8)
Total comprehensive income (loss) attributable to partners	$ 25.8	$ (32.6)	$ 50.0	$ (11.5)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2010	2009
	(Millions)	
OPERATING ACTIVITIES:		
Net income (loss)	$ 52.9	$ (20.2)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	36.5	30.9
Earnings from unconsolidated affiliates	(14.5)	(2.6)
Distributions from unconsolidated affiliates	20.0	3.0
Other, net	1.1	(0.2)
Change in operating assets and liabilities, which provided (used) cash net of effects of acquisitions:		
Accounts receivable	47.8	22.8
Inventories	14.6	4.0
Net unrealized (gains) losses on derivative instruments	(30.3)	54.0
Accounts payable	(42.5)	(38.0)
Accrued interest	0.1	(0.5)
Other current assets and liabilities	2.8	(2.3)
Other long-term assets and liabilities	0.2	0.4
Net cash provided by operating activities	88.7	51.3
INVESTING ACTIVITIES:		
Capital expenditures	(25.4)	(118.4)
Acquisitions, net of cash acquired	(22.0)	(0.1)
Investments in unconsolidated affiliates	(0.7)	(5.8)
Proceeds from sale of assets	1.7	0.3
Purchases of available-for-sale securities		(1.1)
Proceeds from sales of available-for-sale securities	10.1	26.1
Net cash used in investing activities	(36.3)	(99.0)
FINANCING ACTIVITIES:		
Proceeds from debt	210.6	68.3
Payments of debt	(208.6)	(86.8)
Net change in advances to predecessor from DCP Midstream, LLC		3.0
Distributions to unitholders and general partner	(49.1)	(40.2)
Distributions to noncontrolling interests	(8.2)	(4.9)
Contributions from noncontrolling interests	9.1	50.3
Contributions from DCP Midstream, LLC		0.7
Purchase of additional interest in a subsidiary	(3.5)	
Net cash used in financing activities	(49.7)	(9.6)
Net change in cash and cash equivalents	2.7	(57.3)
Cash and cash equivalents, beginning of period	2.1	61.9

Cash and cash equivalents, end of period	$ 4.8	$ 4.6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Partners Equity							
	Predecessor Equity	Common Unitholders	Class D Unitholders	Subordinated Unitholders	General Partner Unitholders	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	(Millions)							
Balance, January 1, 2010	$	$ 415.5	$	$	$ (5.9)	$ (31.9)	$ 227.7	$ 605.4
Purchase of additional interest in a subsidiary		1.0					(5.5)	(4.5)
Distributions		(41.5)			(7.6)		(8.2)	(57.3)
Contributions							9.1	9.1
Comprehensive income (loss):								
Net income		44.1			7.7		1.1	52.9
Reclassification of cash flow hedges into earnings						11.6		11.6
Net unrealized losses on cash flow hedges						(13.4)		(13.4)
Total comprehensive income (loss)		44.1			7.7	(1.8)	1.1	51.1
Balance, June 30, 2010	$	$ 419.1	$	$	$ (5.8)	$ (33.7)	$ 224.2	$ 603.8
Balance, January 1, 2009	$ 66.0	$ 429.0	$	$ (54.6)	$ (4.8)	$ (40.5)	$ 167.7	$ 562.8
Net change in parent advances	3.0							3.0
Conversion of subordinated units to common units		(52.1)		52.1				
Distributions		(31.7)		(2.1)	(6.4)		(4.9)	(45.1)
Contributions from DCP Midstream, LLC		0.7						0.7
Contributions from noncontrolling interests							50.3	50.3
Other		(0.1)						(0.1)
Issuance of 3,500,000 Class D units			49.7					49.7
Acquisition of additional 25.1% interest in East Texas and the NGL Hedge	(68.0)		4.6					(63.4)
Deficit purchase price over acquired assets			18.3					18.3
Comprehensive income (loss):								
Net loss attributable to predecessor operations	(1.0)							(1.0)
Net (loss) income		(25.3)	(4.9)	4.6	5.6		0.8	(19.2)
Reclassification of cash flow hedges into earnings						9.2		9.2

Net unrealized gains on cash flow hedges						0.3		0.3
Total comprehensive (loss) income	(1.0)	(25.3)	(4.9)	4.6	5.6	9.5	0.8	(10.7)
Balance, June 30, 2009	$	$ 320.5	$ 67.7	$	$ (5.6)	$ (31.0)	$ 213.9	$ 565.5

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Basis of Presentation

DCP Midstream Partners, LP, with its consolidated subsidiaries, or us, we or our, is engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas; producing, transporting, storing and selling propane; and producing, transporting and selling NGLs and condensate.

We are a Delaware limited partnership that was formed in August 2005. We completed our initial public offering on December 7, 2005. Our partnership includes: our Northern Louisiana system; our Southern Oklahoma system; our 40% limited liability company interest in Discovery Producer Services LLC, or Discovery; our Wyoming system; a 75% interest in our Colorado system (of which 5% was acquired in February 2010); our 50.1% interest in our East Texas system (of which 25.1% was acquired in April 2009); our Michigan systems (of which certain assets were acquired in November 2009); our wholesale propane logistics business; and our NGL transportation pipelines (which includes our Wattenberg pipeline acquired in January 2010).

Our operations and activities are managed by our general partner, DCP Midstream GP, LP, which in turn is managed by its general partner, DCP Midstream GP, LLC, which we refer to as the General Partner, and is wholly-owned by DCP Midstream, LLC. DCP Midstream, LLC and its subsidiaries and affiliates, collectively referred to as DCP Midstream, LLC, is owned 50% by Spectra Energy Corp, or Spectra Energy, and 50% by ConocoPhillips. DCP Midstream, LLC directs our business operations through its ownership and control of the General Partner. DCP Midstream, LLC and its affiliates employees provide administrative support to us and operate our assets. DCP Midstream, LLC owns approximately 35% of us.

The condensed consolidated financial statements include the accounts of the Partnership and all majority-owned subsidiaries where we have the ability to exercise control and undivided interests in jointly owned assets. Investments in greater than 20% owned affiliates that are not variable interest entities and where we do not have the ability to exercise control, and investments in less than 20% owned affiliates where we have the ability to exercise significant influence, are accounted for using the equity method. Intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements include our accounts, which have been combined with the historical assets, liabilities and operations of our predecessor operations. We refer to the assets, liabilities and operations of DCP East Texas Holdings, LLC, or East Texas, prior to our acquisition of an additional 25.1% limited liability company interest from DCP Midstream, LLC in April 2009, collectively as our predecessor. Prior to our acquisition of an additional 25.1% limited liability company interest in East Texas, we owned a 25.0% limited liability company interest in East Texas which we accounted for under the equity method of accounting. Subsequent to this transaction we own a 50.1% limited liability company interest in East Texas, and account for East Texas as a consolidated subsidiary. Because the additional interest in East Texas was acquired from DCP Midstream, LLC, this transaction was considered to be among entities under common control. We recognize transfers of net assets between entities under common control at DCP Midstream, LLC s basis in the net assets contributed. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retroactively adjusted to furnish comparative information similar to the pooling method; accordingly our financial information includes the historical results of East Texas for all periods presented. The amount of the purchase price in excess, or in deficit of DCP Midstream, LLC s basis in the net assets, if any, is recognized as a reduction to, or an increase to partners equity, respectively. In addition, the results of operations of our Michigan systems and our Wattenberg pipeline have been included in the condensed consolidated financial statements since their respective acquisition dates.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Although these estimates are based on management s best available knowledge of current and expected future events, actual results could differ from those estimates. The condensed consolidated financial statements of our predecessor have been prepared from the separate records maintained by DCP Midstream, LLC and may not necessarily be indicative of the conditions that would have existed or the results of operations if our predecessor had been operated as an unaffiliated entity. All intercompany balances and transactions have been eliminated. Transactions between us and other DCP Midstream, LLC operations have been identified in the consolidated financial statements as transactions between affiliates.

6

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, these condensed consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective interim periods. Certain information and notes normally included in our annual financial statements have been condensed or omitted from these interim financial statements pursuant to such rules and regulations. Results of operations for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These condensed consolidated financial statements and other information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in our 2009 Form 10-K.

Certain amounts in the prior period condensed consolidated financial statements have been reclassified to the current period presentation.

2. Recent Accounting Pronouncements

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, **or ASU 2010-06** In January 2010, the FASB issued ASU 2010-06 which amended the Accounting Standards Codification, or ASC, Topic 820-10 Fair Value Measurement and Disclosures Overall. ASU 2010-06 requires new disclosures regarding transfers in and out of assets and liabilities measured at fair value classified within the valuation hierarchy as either Level 1 or Level 2 and information about sales, issuances and settlements on a gross basis for assets and liabilities classified as Level 3. ASU 2010-06 clarifies existing disclosures on the level of disaggregation required and inputs and valuation techniques. The provisions of ASU 2010-06 became effective for us on January 1, 2010, except for disclosure of information about sales, issuances and settlements on a gross basis for assets and liabilities classified as Level 3, which is effective for us on January 1, 2011. The provisions of ASU 2010-06 impact only disclosures and we have disclosed information in accordance with the revised provisions of ASU 2010-06 within this filing.

ASU 2009-17 Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, **or ASU 2009-17** In December 2009, the FASB issued ASU 2009-17 which amended ASC Topic 810 Consolidation. ASU 2009-17 requires entities to perform additional analysis of their variable interest entities and consolidation methods. This ASU became effective for us on January 1, 2010 and upon adoption we did not change our conclusions on which entities we consolidate in our condensed consolidated financial statements.

ASU 2009-13 Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, **or ASU 2009-13** In October 2009, the FASB issued ASU 2009-13 which amended ASC Topic 605 Revenue Recognition. The ASU addresses the accounting for multiple-deliverable arrangements, to enable vendors to account for products or services separately rather than as a combined unit. ASU 2009-13 is effective for us on January 1, 2011 and we are in the process of assessing the impact of ASU 2009-13 on our condensed consolidated results of operations, cash flows and financial position as a result of adoption.

3. Acquisitions

Gathering, Compression, Transportation and Processing Assets

On February 3, 2010 we acquired an additional 5% interest in Collbran Valley Gas Gathering LLC, or Collbran, from Delta Petroleum Company, or Delta, for $3.5 million in cash, bringing our total ownership in Collbran to 75%. In addition, as part of this transaction we paid Delta s unpaid capital calls to Collbran of $2.4 million. We may pay an additional $2.0 million of contingent consideration to Delta depending on if Delta meets certain throughput volume thresholds by June 30, 2011, pursuant to a gathering agreement. As of March 31, 2010 we recognized the fair value of this contingent consideration of approximately $1.0 million, which we recorded to other current liabilities in our condensed

consolidated balance sheet. Accordingly, we recognized a $5.5 million reduction in noncontrolling interest in equity, which represents the carrying value of Delta s 5% interest in Collbran, and an increase of $1.0 million to common unitholders in equity, which represented the difference between the fair value of the consideration and the carrying value of Delta s 5% interest. As of June 30, 2010, we have reassessed the fair value of the contingent consideration and have adjusted the fair value of the liability to approximately $0.5 million. Accordingly, we have recognized $0.5 million in other income in our condensed consolidated results of operations during the three and six months ended June 30, 2010.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On January 28, 2010, we acquired an interstate natural gas liquids pipeline, or the Wattenberg pipeline, from Buckeye Partners, L.P., or Buckeye, for $22.0 million in cash, funded with borrowings under our revolving credit facility. This transaction was accounted for as a business combination. The 350-mile pipeline originates in the Denver-Julesburg, or DJ Basin, in Colorado and terminates near the Conway hub in Bushton, Kansas. The pipeline is currently utilized by DCP Midstream, LLC as a market outlet for NGL production from certain of their plants in the DJ Basin. The results of the asset are included in our NGL Logistics segment prospectively, from the date of acquisition. The purchase price was allocated to property, plant and equipment.

Combined Financial Information

The following table presents unaudited pro forma information for the condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009, as if the acquisition of the Wattenberg pipeline had occurred at the beginning of each period presented. For the three and six month ended June 30, 2010, revenues of $0.9 million and $1.5 million and net income attributable to partners of $0 and $0.3 million, respectively, associated with the acquired assets, from the date of acquisition through June 30, 2010 have been included in the condensed consolidated statement of operations.

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009		
	DCP Midstream Partners, LP	Acquisition of the Wattenberg Pipeline	DCP Midstream Partners, LP Pro Forma	DCP Midstream Partners, LP	Acquisition of the Wattenberg Pipeline (a)	DCP Midstream Partners, LP Pro Forma
	(Millions, except per unit amounts)					
Total operating revenues	$ 277.5	$	$ 277.5	$ 152.0	$ 3.2	$ 155.2
Net income (loss) attributable to partners	$ 26.0	$	$ 26.0	$ (42.1)	$ (70.6)	$ (112.7)
Less:						
General partner unitholders interest in net income or loss	(4.2)		(4.2)	(2.7)	0.8	(1.9)
Net income (loss) allocable to limited partners	$ 21.8	$	$ 21.8	$ (44.8)	$ (69.8)	$ (114.6)
Net income (loss) per limited partner unit basic and diluted	$ 0.63	$	$ 0.63	$ (1.41)	$ (2.21)	$ (3.62)

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	DCP Midstream Partners, LP	Acquisition of the Wattenberg Pipeline	DCP Midstream Partners, LP Pro Forma	DCP Midstream Partners, LP	Acquisition of the Wattenberg Pipeline (a)	DCP Midstream Partners, LP Pro Forma
	(Millions, except per unit amounts)					
Total operating revenues	$ 681.2	$ 0.2	$ 684.4	$ 436.4	$ 6.5	$ 442.9
Net income (loss) attributable to partners	$ 51.8	$ 0.1	$ 51.9	$ (21.0)	$ (68.6)	$ (89.6)
Less:						
Net loss attributable to predecessor operations				1.0		1.0
General partner unitholders interest in net income or loss	(8.0)		(8.0)	(5.9)	0.8	(5.1)
Net income (loss) allocable to limited partners	$ 43.8	$ 0.1	$ 43.9	$ (25.9)	$ (67.8)	$ (93.7)
Net income (loss) per limited partner unit basic and diluted	$ 1.27	$	$ 1.27	$ (0.86)	$ (2.26)	$ (3.12)

(a) During the second quarter of 2009, prior to our ownership, Buckeye received notification that several of its shippers on the Wattenberg pipeline intended to migrate to a competing pipeline which had recently been put into service. The notification by the shippers was accompanied by a significant decline in shipment volumes as compared to historical averages. As a result Buckeye recognized an impairment charge of $72.5 million in relation to the Wattenberg pipeline.

The pro forma information is not intended to reflect actual results that would have occurred if the assets had been combined during the periods presented, nor is it intended to be indicative of the results of operations that may be achieved by us in the future.

4. Agreements and Transactions with Affiliates

DCP Midstream, LLC

Omnibus Agreement and Other General and Administrative Charges

We have entered into an omnibus agreement, as amended, or the Omnibus Agreement, with DCP Midstream, LLC. Under the Omnibus Agreement, we are required to reimburse DCP Midstream, LLC for certain costs incurred and centralized corporate functions performed by DCP Midstream, LLC on our behalf. We incurred $2.4 million for three months ended June 30, 2010 and 2009, respectively and $4.9 million and $4.8 million for the six months ended June 30, 2010 and 2009, respectively, for all fees under the Omnibus Agreement.

East Texas incurs general and administrative expenses directly from DCP Midstream, LLC. East Texas incurred $1.9 million and $2.2 million for the three months ended June 30, 2010 and 2009, respectively and $3.9 million and $4.4 million for the six months ended June 30, 2010 and 2009, respectively, for general and administrative expenses from DCP Midstream, LLC, which includes expenses for our predecessor operations.

In addition to the Omnibus Agreement and amounts incurred by East Texas, we incurred other fees with DCP Midstream, LLC of $0.5 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively and $0.8 million and $1.2 million for the six months ended June 30, 2010 and 2009, respectively. These amounts include allocated expenses, including professional services, insurance and internal audit.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Other Agreements and Transactions with DCP Midstream, LLC

On June 30, 2010, we entered into an agreement with DCP Midstream, LLC to sell certain surplus equipment with a net book value of $1.6 million, for net proceeds of $2.2 million. The surplus equipment is the result of our integration efforts and synergies realized following our acquisition of certain companies that held natural gas gathering and treating assets from MichCon Pipeline Company in November 2009. The title to the surplus equipment will pass to DCP Midstream, LLC upon removal of the equipment from our premises. As of June 30, 2010, the surplus equipment has been reclassified from property, plant and equipment, to current assets and classified as assets held for sale in our condensed consolidated balance sheets. In addition, we have recorded a deferred credit of $2.2 million in other current liabilities in our condensed consolidated balance sheets.

In conjunction with our acquisition of the Wattenberg pipeline, we signed a transportation agreement with DCP Midstream, LLC pursuant to fee-based rates that will be applied to the volumes transported. The agreement is effective through November 2010, renewing on an evergreen basis thereafter. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

In conjunction with our acquisition of a 50.1% limited liability company interest in East Texas from DCP Midstream, LLC, we entered into agreements with DCP Midstream, LLC whereby DCP Midstream, LLC will reimburse East Texas for certain expenditures on East Texas capital projects, as defined in the Contribution Agreements. These reimbursements are for a period not to exceed three years from the respective acquisition dates. DCP Midstream, LLC made capital contributions to East Texas for capital projects of $9.1 million and $46.7 million for the six months ended June 30, 2010 and 2009, respectively.

On February 11, 2009, our East Texas natural gas processing complex and natural gas delivery system known as the Carthage Hub, was temporarily shut in following a fire that was caused by a third party underground pipeline outside of our property line that ruptured. We are actively pursuing full reimbursement of our costs and lost margin associated with the incident from the responsible third party and East Texas filed a lawsuit in December 2009, to recover damages from the responsible third party. In the event we are unable to recover our costs and lost margin from the responsible third party, we have insurance covering property damage, net of applicable deductibles. Following this incident, DCP Midstream, LLC has agreed to reimburse to us twenty-five percent of any claims received as reimbursement of costs and lost margin, from the responsible third party or from insurance. DCP Midstream, LLC will pay seventy-five percent of costs related to the incident as a result of this agreement.

We sell a portion of our residue gas, NGLs and condensate to, purchase natural gas and other petroleum products from, and provide gathering and transportation services for, DCP Midstream, LLC. We anticipate continuing to purchase from and sell commodities to DCP Midstream, LLC in the ordinary course of business. In addition, DCP Midstream, LLC conducts derivative activities on our behalf.

DCP Midstream, LLC owns certain assets and is party to certain contractual relationships around our Pelico system, included in our Northern Louisiana system, which is part of our Natural Gas Services segment, that are periodically used for the benefit of Pelico. DCP Midstream, LLC is able to source natural gas upstream of Pelico and deliver it to us and is able to take natural gas from the outlet of the Pelico system and market it downstream of Pelico. We purchase natural gas from DCP Midstream, LLC upstream of Pelico and transport it to Pelico under a firm transportation agreement with an affiliate. Our purchases from DCP Midstream, LLC are at DCP Midstream, LLC s actual acquisition cost plus any transportation service charges. Volumes that exceed our on-system demand and volumes supplying an industrial end user are sold to DCP Midstream, LLC at an index-based price, less contractually agreed to marketing fees. Revenues associated with these activities are reported gross in our condensed consolidated statements of operations as sales of natural gas, propane, NGLs and condensate to affiliates.

In our NGL Logistics segment, we also have a contractual arrangement with a subsidiary of DCP Midstream, LLC that provides that DCP Midstream, LLC will pay us to transport NGLs over our Seabreeze and Wilbreeze pipelines, pursuant to fee-based rates that will be applied to the volumes transported. DCP Midstream, LLC is the sole shipper on these pipelines under the transportation agreements. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

In April 2009, we entered into a thirteen year contractual arrangement with DCP Midstream, LLC in which we pay DCP Midstream, LLC a fee for processing services associated with the gas we gather on our Southern Oklahoma system, which is part of our Natural Gas Services segment. In addition, in February 2010, a contract was signed with DCP Midstream, LLC providing

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

for adjustments to those fees based upon plant efficiencies related to our portion of volumes from our Southern Oklahoma system being processed at DCP Midstream, LLC s plant through March 2022. We generally report fees associated with these activities in the condensed consolidated statements of operations as purchases of natural gas, propane, NGLs and condensate from affiliates. In addition, as part of this arrangement, DCP Midstream, LLC pays us a fee for certain gathering services. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

DCP Midstream, LLC has issued parental guarantees, totaling $108.0 million as of June 30, 2010, in favor of certain counterparties to our commodity derivative instruments to mitigate a portion of our collateral requirements with those counterparties. We pay DCP Midstream, LLC interest of 0.5% per annum on $65.0 million of these outstanding guarantees

DCP Midstream, LLC has issued parental guarantees for its 49.9% limited liability company interest in East Texas, totaling $5.5 million as of June 30, 2010, in favor of certain counterparties to processing and transportation agreements at East Texas. Concurrently, we issued similar guarantees for our 50.1% interest.

DCP Midstream, LLC was a significant customer during the three and six months ended June 30, 2010 and 2009.

Spectra Energy

We have a propane supply agreement with Spectra Energy, effective from May 1, 2008 through April 30, 2012, which provides us propane supply at our marine terminal, which is included in our Wholesale Propane Logistics segment, for up to approximately 120 million gallons of propane annually. On June 15, 2010, we entered into an amendment to the supply agreement to shorten the term of the agreement by two years to April 30, 2012, which previously terminated on April 30, 2014. In consideration for shortening the term, Spectra Energy provided us with a cash payment of $3.0 million, which we have recognized in other income affiliates, in our Wholesale Propane Logistics segment, in the condensed consolidated statements of operations.

ConocoPhillips

We have multiple agreements with ConocoPhillips and its affiliates. The agreements include fee-based and percent-of-proceeds gathering and processing arrangements, and gas purchase and gas sales agreements. We anticipate continuing to purchase from and sell these commodities to ConocoPhillips and its affiliates in the ordinary course of business. In addition, we may be reimbursed by ConocoPhillips for certain capital projects where the work is performed by us. We received $0.2 million and $0.7 million of capital reimbursements during the six months ended June 30, 2010 and 2009, respectively.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summary of Transactions with Affiliates

The following table summarizes the transactions with affiliates:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(Millions)			
DCP Midstream, LLC:				
Sales of natural gas, propane, NGLs and condensate	$ 131.9	$ 101.3	$ 265.5	$ 201.1
Transportation, processing and other	$ 2.7	$ 1.4	$ 6.5	$ 2.6
Purchases of natural gas, propane and NGLs	$ 23.7	$ 19.3	$ 86.5	$ 62.4
Losses from commodity derivative activity, net	$ (0.3)	$ (1.9)	$ (0.3)	$ (2.6)
General and administrative expense	$ 4.8	$ 5.1	$ 9.6	$ 10.4
Interest expense	$ 0.1	$	$ 0.2	$ 0.1
Spectra Energy:				
Transportation, processing and other	$ 0.2	$ 0.2	$ 0.2	$ 0.2
Purchases of natural gas, propane and NGLs	$ 2.3	$ 14.5	$ 76.4	$ 48.1
Other income	$ 3.0	$	$ 3.0	$
ConocoPhillips:				
Sales of natural gas, propane, NGLs and condensate	$ 2.9	$ 0.6	$ 4.3	$ 0.7
Transportation, processing and other	$ 2.0	$ 1.9	$ 3.9	$ 4.3
Purchases of natural gas, propane and NGLs	$ 1.6	$ 3.9	$ 3.6	$ 5.9
General and administrative expense	$	$	$ 0.1	$ 0.1
Unconsolidated affiliates:				
Purchases of natural gas, propane and NGLs	$	$	$ 2.4	$ 0.4

We had balances with affiliates as follows:

	June 30, 2010	December 31, 2009
	(Millions)	
DCP Midstream, LLC:		
Accounts receivable	$ 57.9	$ 71.5
Accounts payable	$ 16.8	$ 24.4
Other current liabilities	$ 2.2	$
Unrealized gains on derivative instruments current	$ 0.3	$ 5.5
Unrealized losses on derivative instruments current	$ (0.6)	$ (5.4)
Spectra Energy:		
Accounts receivable	$ 0.1	$ 0.1
Accounts payable	$ 2.0	$ 16.6
ConocoPhillips:		
Accounts receivable	$ 3.0	$ 2.2
Accounts payable	$ 0.5	$ 2.1

12

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

	Depreciable Life	June 30, 2010	December 31, 2009
		(Millions)	
Gathering systems	15 30 Years	$ 691.4	$ 683.0
Processing plants	25 30 Years	436.7	427.4
Terminals	25 30 Years	29.1	28.9
Transportation	25 30 Years	239.4	217.2
General plant	3 5 Years	16.5	15.2
Other	20 50 Years	0.1	0.1
Construction work in progress		23.8	21.8
Property, plant and equipment		1,437.0	1,393.6
Accumulated depreciation		(428.5)	(393.5)
Property, plant and equipment, net		$ 1,008.5	$ 1,000.1

Interest capitalized on construction projects for the six months ended June 30, 2010 was $0 and for the year ended December 31, 2009 was $1.3 million.

Depreciation expense was $18.0 million and $15.6 million for the three months ended June 30, 2010 and 2009, respectively and $35.0 million and $29.6 million for the six months ended June 30, 2010 and 2009, respectively.

6. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

	Percentage of Ownership as of June 30, 2010 and December 31, 2009	Carrying Value as of June 30, 2010	Carrying Value as of December 31, 2009
		(Millions)	
Discovery Producer Services LLC	40%	$ 103.2	$ 108.2
Black Lake Pipe Line Company	45%	6.4	6.2
Other	50%	0.2	0.2
Total investments in unconsolidated affiliates		$ 109.8	$ 114.6

There was a deficit between the carrying amount of the investment and the underlying equity of Discovery of $36.3 million and $37.6 million at June 30, 2010 and December 31, 2009, respectively, which is associated with, and is being accreted over, the life of the underlying long-lived assets of Discovery.

There was a deficit between the carrying amount of the investment and the underlying equity of Black Lake of $5.6 million and $5.7 million at June 30, 2010 and December 31, 2009, respectively, which is associated with, and is being accreted over, the life of the underlying long-lived assets of Black Lake.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Earnings from investments in unconsolidated affiliates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Millions)			
Discovery Producer Services LLC	$ 6.3	$ 3.3	$ 13.7	$ 1.8
Black Lake Pipe Line Company and other	0.3	0.4	0.8	0.8
Total earnings from unconsolidated affiliates	$ 6.6	$ 3.7	$ 14.5	$ 2.6

The following summarizes financial information of our investments in unconsolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Millions)			
Statements of operations:				
Operating revenue	$ 50.5	$ 40.4	$ 112.1	$ 61.9
Operating expenses	$ 35.9	$ 32.9	$ 79.4	$ 58.8
Net income	$ 14.7	$ 7.5	$ 32.7	$ 2.9

	June 30, 2010	December 31, 2009
	(Millions)	
Balance sheets:		
Current assets	$ 32.5	$ 41.8
Long-term assets	380.9	383.8
Current liabilities	(18.8)	(17.4)
Long-term liabilities	(24.6)	(23.6)
Net assets	$ 370.0	$ 384.6

7. Fair Value Measurement

Determination of Fair Value

Below is a general description of our valuation methodologies for derivative financial assets and liabilities, as well as short-term and restricted investments, which are measured at fair value. Fair values are generally based upon quoted market prices, where available. If listed market prices or quotes are not available, we determine fair value based upon a market quote, adjusted by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. These

adjustments result in a fair value for each asset or liability under an exit price methodology, in line with how we believe a marketplace participant would value that asset or liability. These adjustments may include amounts to reflect counterparty credit quality, the effect of our own creditworthiness, the time value of money and/or the liquidity of the market.

Counterparty credit valuation adjustments are necessary when the market price of an instrument is not indicative of the fair value as a result of the credit quality of the counterparty. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. We record counterparty credit valuation adjustments on all derivatives that are in a net asset position as of the measurement date in accordance with our established counterparty credit policy, which takes into account any collateral margin that a counterparty may have posted with us as well as any letters of credit that they have provided.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Entity valuation adjustments are necessary to reflect the effect of our own credit quality on the fair value of our net liability position with each counterparty. This adjustment takes into account any credit enhancements, such as collateral margin we may have posted with a counterparty, as well as any letters of credit that we have provided. The methodology to determine this adjustment is consistent with how we evaluate counterparty credit risk, taking into account our own credit rating, current credit spreads, as well as any change in such spreads since the last measurement date.

Liquidity valuation adjustments are necessary when we are not able to observe a recent market price for financial instruments that trade in less active markets for the fair value to reflect the cost of exiting the position. Exchange traded contracts are valued at market value without making any additional valuation adjustments and, therefore, no liquidity reserve is applied. For contracts other than exchange traded instruments, we mark our positions to the midpoint of the bid/ask spread, and record a liquidity reserve based upon our total net position. We believe that such practice results in the most reliable fair value measurement as viewed by a market participant.

We manage our derivative instruments on a portfolio basis and the valuation adjustments described above are calculated on this basis. We believe that the portfolio level approach represents the highest and best use for these assets as there are benefits inherent in naturally offsetting positions within the portfolio at any given time, and this approach is consistent with how a market participant would view and value the assets and liabilities. Although we take a portfolio approach to managing these assets/liabilities, in order to reflect the fair value of any one individual contract within the portfolio, we allocate all valuation adjustments down to the contract level, to the extent deemed necessary, based upon either the notional contract volume, or the contract value, whichever is more applicable.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe that our valuation methods are appropriate and consistent with other market participants, we recognize that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We review our fair value policies on a regular basis taking into consideration changes in the marketplace and, if necessary, will adjust our policies accordingly. See Note 9 Risk Management and Hedging Activities.

Valuation Hierarchy

Our fair value measurements are grouped into a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs are unadjusted quoted prices for *identical* assets or liabilities in active markets.

Level 2 inputs include quoted prices for *similar* assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable and considered significant to the fair value measurement.

A financial instrument s categorization within the hierarchy is based upon the input that requires the highest degree of judgment in the determination of the instrument s fair value. Following is a description of the valuation methodologies used as well as the general classification of such instruments pursuant to the hierarchy.

Commodity Derivative Assets and Liabilities

We enter into a variety of derivative financial instruments, which may include over the counter, or OTC, instruments, such as natural gas, crude oil or NGL contracts.

Within our Natural Gas Services segment we typically use OTC derivative contracts in order to mitigate a portion of our exposure to natural gas, NGL and condensate price changes. We also may enter into natural gas derivatives to lock in margin around our storage and transportation assets. These instruments are generally classified as Level 2. Depending upon market conditions and our strategy, we may enter into OTC derivative positions with a significant time horizon to maturity, and market prices for these OTC derivatives may only be readily observable for a portion of the duration of the instrument. In order to calculate the fair value of these instruments, readily observable market information is utilized to the extent that it is available; however, in the event that readily observable market data is not available, we may interpolate or extrapolate based upon observable data. In instances where we utilize an interpolated or extrapolated value, and it is considered significant to the valuation of the contract as a whole, we would classify the instrument within Level 3.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Within our Wholesale Propane Logistics segment, we may enter into a variety of financial instruments to either secure sales or purchase prices, or capture a variety of market opportunities. Since financial instruments for NGLs tend to be counterparty and location specific, we primarily use the OTC derivative instrument markets, which are not as active and liquid as exchange traded instruments. Market quotes for such contracts may only be available for short dated positions (up to six months), and an active market itself may not exist beyond such time horizon. Contracts entered into with a relatively short time horizon for which prices are readily observable in the OTC market are generally classified within Level 2. Contracts with a longer time horizon, for which we internally generate a forward curve to value such instruments, are generally classified within Level 3. The internally generated curve may utilize a variety of assumptions including, but not limited to, historical and future expected relationship of NGL prices to crude oil prices, the knowledge of expected supply sources coming on line, expected weather trends within certain regions of the United States, and the future expected demand for NGLs.

Each instrument is assigned to a level within the hierarchy at the end of each financial quarter depending upon the extent to which the valuation inputs are observable. Generally, an instrument will move toward a level within the hierarchy that requires a lower degree of judgment as the time to maturity approaches, and as the markets in which the asset trades will likely become more liquid and prices more readily available in the market, thus reducing the need to rely upon our internally developed assumptions. However, the level of a given instrument may change, in either direction, depending upon market conditions and the availability of market observable data.

Interest Rate Derivative Assets and Liabilities

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

Short-Term and Restricted Investments

We are required to post collateral to secure the term loan portion of our credit facility, and may elect to invest a portion of our available cash and restricted investment balances in various financial instruments such as commercial paper and money market instruments. The money market instruments are generally priced at acquisition cost, plus accreted interest at the stated rate, which approximates fair value, without any additional adjustments. Given that there is no observable exchange traded market for identical money market securities, we have classified these instruments within Level 2. Investments in commercial paper are priced using a yield curve for similarly rated instruments, and are classified within Level 2. Restricted investments have been used as collateral to secure the term loan portion of our credit facility. As of June 30, 2010, we held no short-term or restricted investments, as a result of the term loan facility being fully repaid during the first quarter of 2010.

Nonfinancial Assets and Liabilities

We utilize fair value on a non-recurring basis to perform impairment tests as required on our property, plant and equipment, goodwill and intangible assets. Assets and liabilities acquired in business combinations are recorded at their fair value on the date of acquisition. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified within Level 3, in the event that we were required to measure and record such assets at fair value within our consolidated financial statements. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified within Level 3.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We utilize fair value on a recurring basis to measure our contingent consideration that is a result of certain acquisitions. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and are classified within Level 3.

The following table presents the financial instruments carried at fair value as of June 30, 2010 and December 31, 2009, by consolidated balance sheet caption and by valuation hierarchy as described above:

	June 30, 2010				December 31, 2009			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(Millions)							
Current assets:								
Short term investments (a)	$	$	$	$	$	$ 0.1	$	$ 0.1
Commodity derivatives (b)	$	$ 2.0	$ 0.8	$ 2.8	$	$ 6.9	$ 0.4	$ 7.3
Long-term assets:								
Restricted investments	$	$	$	$	$	$ 10.0	$	$ 10.0
Commodity derivatives (c)	$	$ 3.4	$ 1.8	$ 5.2	$	$ 1.8	$ 0.2	$ 2.0
Current liabilities:								
Acquisition related contingent consideration (d)	$	$	$ (0.5)	$ (0.5)	$	$	$	$
Commodity derivatives (e)	$	$ (11.1)	$ (0.1)	$ (11.2)	$	$ (20.3)	$ (0.8)	$ (21.1)
Interest rate derivatives (e)	$	$ (19.1)	$	$ (19.1)	$	$ (20.4)	$	$ (20.4)
Long-term liabilities (f):								
Commodity derivatives	$	$ (24.3)	$ (0.2)	$ (24.5)	$	$ (46.0)	$ (0.4)	$ (46.4)
Interest rate derivatives	$	$ (14.9)	$	$ (14.9)	$	$ (11.6)	$	$ (11.6)

(a) Included in other current assets in our condensed consolidated balance sheets.
(b) Included in current unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(c) Included in long-term unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(d) Included in other current liabilities in our condensed consolidated balance sheets
(e) Included in current unrealized losses on derivative instruments in our condensed consolidated balance sheets.
(f) Included in long-term unrealized losses on derivative instruments in our condensed consolidated balance sheets.

Changes in Level 3 Fair Value Measurements

The tables below illustrate a rollforward of the amounts included in our condensed consolidated balance sheets for derivative financial instruments that we have classified within Level 3. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable factors used in determining the overall fair value of the instrument. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily observable in the market, and/or the use of unobservable inputs, which are significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. In the event that there were movements to/from the classification of an instrument as Level 3, we would reflect such items in the table below within the Transfers into Level 3 and Transfers out of Level 3 captions.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We manage our overall risk at the portfolio level, and in the execution of our strategy, we may use a combination of financial instruments, which may be classified within any level. Since Level 1 and Level 2 risk management instruments are not included in the rollforward below, the gains or losses in the table do not reflect the effect of our total risk management activities.

	Commodity Derivative Instruments			
	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities
	(Millions)			
Three months ended June 30, 2010:				
Beginning balance	$ 1.5	$ 1.2	$ (0.3)	$ (0.4)
Net realized and unrealized gains (losses) included in earnings		0.6	0.2	0.2
Transfers into Level 3 (a)				
Transfers out of Level 3 (a)				
Purchases, Issuances and Settlements net	(0.7)			
Ending balance	$ 0.8	$ 1.8	$ (0.1)	$ (0.2)
Net unrealized (losses) gains still held included in earnings (b)	$ (0.1)	$ 0.7	$	$ 0.1
Three months ended June 30, 2009:				
Beginning balance	$ 1.0	$ 1.7	$	$ (0.3)
Net realized and unrealized gains (losses) included in earnings	(3.3)	(1.7)	(0.1)	(0.6)
Net transfers in (out) of Level 3 (c)				
Purchases, Issuances and Settlements net	3.5			
Ending balance	$ 1.2	$	$ (0.1)	$ (0.9)
Net unrealized losses still held included in earnings (b)	$ (2.6)	$ (1.7)	$ (0.1)	$ (0.6)

(a) Amounts transferred in and amounts transferred out are reflected at fair value as of the end of the period.
(b) Represents the amount of total gains or losses for the period, included in gains or losses from commodity derivative activity, net, attributable to change in unrealized gains or losses relating to assets and liabilities classified as Level 3 that are still held as of June 30, 2010 and 2009.
(c) Amounts transferred in are reflected at the fair value as of the beginning of the period and amounts transferred out are reflected at fair value at the end of the period.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Commodity Derivative Instruments			
	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities
	(Millions)			
Six months ended June 30, 2010:				
Beginning balance	$ 0.4	$ 0.2	$ (0.8)	$ (0.4)
Net realized and unrealized gains (losses) included in earnings	1.0	1.6		0.2
Transfers into Level 3 (a)				
Transfers out of Level 3 (a)				
Purchases, Issuances and Settlements net	(0.6)		0.7	
Ending balance	$ 0.8	$ 1.8	$ (0.1)	$ (0.2)
Net unrealized gains still held included in earnings (b)	$ 0.7	$ 1.6	$	$ 0.1
Six months ended June 30, 2009:				
Beginning balance	$ 0.3	$ 1.7	$	$
Net realized and unrealized gains (losses) included in earnings	(2.7)	(1.7)	(0.1)	(0.9)
Net transfers in (out) of Level 3 (c)				
Purchases, Issuances and Settlements net	3.6			
Ending balance	$ 1.2	$	$ (0.1)	$ (0.9)
Net unrealized losses still held included in earnings (b)	$ (2.0)	$ (1.7)	$ (0.1)	$ (0.9)

(a) Amounts transferred in and amounts transferred out are reflected at fair value as of the end of the period.

(b) Represents the amount of total gains or losses for the period, included in gains or losses from commodity derivative activity, net, attributable to change in unrealized gains or losses relating to assets and liabilities classified as Level 3 that are still held as of June 30, 2010 and 2009.

(c) Amounts transferred in are reflected at the fair value as of the beginning of the period and amounts transferred out are reflected at fair value at the end of the period.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of March 31, 2010, we recognized the fair value of our contingent consideration, which is classified as Level 3, in relation to our acquisition of an additional 5% interest in Collbran, from Delta, of approximately $1.0 million, which we recorded to other current liabilities in our condensed consolidated balance sheets. As of June 30, 2010, we have reassessed the fair value of the contingent consideration and have adjusted the fair value of the liability to approximately $0.5 million. Accordingly we have recognized $0.5 million in other income in our condensed consolidated results of operations for the three and six months ended June 30, 2010.

During the three and six months ended June 30, 2010, we had no significant transfers into and out of Levels 1, 2 and 3. To qualify as a transfer, the asset or liability must have existed in the previous reporting period and moved into a different level during the current period.

Estimated Fair Value of Financial Instruments

We have determined fair value amounts using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The fair value of restricted investments, accounts receivable and accounts payable are not materially different from their carrying amounts because of the short term nature of these instruments or the stated rates approximating market rates. Unrealized gains and unrealized losses on derivative instruments are carried at fair value. The carrying and fair values of outstanding balances under our Credit Agreement are $615.0 million, and $596.2 million, respectively, as of June 30, 2010 and $613.0 million and $590.0 million, respectively, as of December 31, 2009. We determine the fair value of our credit facility borrowings based upon the discounted present value of expected future cash flows, taking into account the difference between the contractual borrowing spread and the spread for similar credit facilities available in the marketplace. Additionally, we have executed interest rate swap agreements on a portion of our interest rate exposure which swaps variable for fixed interest rates.

8. Debt

Long-term debt was as follows:

	June 30, 2010	December 31, 2009
	(Millions)	
Revolving credit facility, weighted-average variable interest rate of 0.92% and 0.69%, respectively, and net effective interest rate of 4.34% and 4.41%, respectively, due June 21, 2012 (a)	$ 615.0	$ 603.0
Term loan facility, variable interest rate of 0.34%, due June 21, 2012 (b)		10.0
Total long-term debt	$ 615.0	$ 613.0

(a) $575.0 million of debt has been swapped to a fixed rate obligation with effective fixed rates ranging from 2.26% to 5.19%, for a net effective rate of 4.34% on the $615.0 million of outstanding debt under our revolving credit facility as of June 30, 2010.

(b)

The term loan facility was fully secured by restricted investments as of December 31, 2009. The term loan was repaid during the first quarter of 2010.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Credit Agreement

We have an $850.0 million revolving credit facility that matures June 21, 2012, or the Credit Agreement.

Effective June 28, 2010, we transferred both the funded and the unfunded portions of the former Lehman Brothers Commercial Bank commitment to Morgan Stanley. The transfer reinstated $25.4 million of available capacity to our revolving credit facility.

At June 30, 2010 and December 31, 2009, we had a $0.4 million and a $0.3 million, respectively, letter of credit issued under the Credit Agreement outstanding. As of December 31, 2009 we had outstanding term loan balances under the Credit Agreement, which were fully collateralized by investments in high-grade securities, classified as restricted investments in the accompanying condensed consolidated balance sheets as of December 31, 2009. As of June 30, 2010 the available capacity under the revolving credit facility was $234.6 million.

The Credit Agreement requires us to maintain a leverage ratio (the ratio of our consolidated indebtedness to our consolidated EBITDA, in each case as is defined by the Credit Agreement) of not more than 5.0 to 1.0, and on a temporary basis for not more than three consecutive quarters (including the quarter in which such acquisition is consummated) following the consummation of asset acquisitions in the midstream energy business of not more than 5.5 to 1.0.

Our borrowing capacity may be limited by the Credit Agreement s financial covenant requirements. Except in the case of a default, amounts borrowed under our credit facility will not mature prior to the June 21, 2012, maturity date.

Other Agreements

As of June 30, 2010, we had an outstanding letter of credit with a counterparty to our commodity derivative instruments of $10.0 million, which reduces the amount of cash we may be required to post as collateral. We pay a fee of 0.75% per annum on this letter of credit. This letter of credit was issued directly by a financial institution and does not reduce the available capacity under our credit facility.

9. Risk Management and Hedging Activities

Our day to day operations expose us to a variety of risks including but not limited to changes in the prices of commodities that we buy or sell, changes in interest rates, and the creditworthiness of each of our counterparties. We manage certain of these exposures with both physical and financial transactions. We have established a comprehensive risk management policy, or Risk Management Policy, and a risk management committee, or the Risk Management Committee, to monitor and manage market risks associated with commodity prices and counterparty credit. The Risk Management Committee is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits. The following briefly describes each of the risks that we manage.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the prices of natural gas, NGLs and condensate as a result of our gathering, processing, sales and storage activities. For gathering and processing services, we may receive fees or commodities as payment for these services, depending on the contract type. We enter into derivative financial instruments to mitigate a portion of the risk of weakening natural gas, NGL and condensate prices associated with our gathering, processing and sales activities, thereby stabilizing our cash flows. We have mitigated a portion of our expected commodity price risk associated with our gathering, processing and sales activities through 2015 with natural gas and crude oil derivative instruments. Additionally, given the limited depth of the NGL derivatives market, we primarily utilize crude oil swaps to mitigate a portion of our commodity price exposure for propane and heavier NGLs. Historically, prices of NGLs have been generally related to the price of crude oil, with some exceptions, notably in late 2008 to early 2009, when NGL pricing was at a greater discount to crude oil. Given the relationship and the lack of liquidity in the NGL financial market, we have historically used crude oil swaps to mitigate a portion of NGL price

risks. When the relationship of NGL prices to crude oil prices is outside of historical ranges, we experience additional exposure as a result of the relationship. These transactions are primarily accomplished through the use of forward contracts, which are swap futures that effectively exchange our floating rate price risk for a fixed rate. However, the type of instrument that we use to mitigate a portion of our risk may vary depending upon our risk management objective. These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected within our condensed consolidated statements of operations as a gain or a loss on commodity derivative activity.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

With respect to our Pelico system, we may enter into financial derivatives to lock in transportation margins across the system, or to lock in margins around our leased storage facility to maximize value. This objective may be achieved through the use of physical purchases or sales of gas that are accounted for under accrual accounting. While the physical purchase or sale of gas transactions are accounted for under accrual accounting and any inventory is stated at lower of cost or market, the swaps are not designated as hedging instruments for accounting purposes and any change in fair value of these instruments is reflected within our condensed consolidated statements of operations.

Our Wholesale Propane Logistics segment is generally designed to establish stable margins by entering into supply arrangements that specify prices based on established floating price indices and by entering into sales agreements that provide for floating prices that are tied to our variable supply costs plus a margin. To the extent possible, we match the pricing of our supply portfolio to our sales portfolio in order to lock in value and reduce our overall commodity price risk. However, to the extent that we carry propane inventories or our sales and supply arrangements are not aligned, we are exposed to market variables and commodity price risk. We manage the commodity price risk of our supply portfolio and sales portfolio with both physical and financial transactions. While the majority of our sales and purchases in this segment are index-based, occasionally, we may enter into fixed price sales agreements in the event that a retail propane distributor desires to purchase propane from us on a fixed price basis. In such cases, we may manage this risk with derivatives that allow us to swap our fixed price risk to market index prices that are matched to our market index supply costs. In addition, we may on occasion use financial derivatives to manage the value of our propane inventories. These transactions are not designated as hedging instruments for accounting purposes and the change in value is reflected in the current period within our condensed consolidated statements of operations as a gain or loss on commodity derivative activity.

Our portfolio of commodity derivative activity is primarily accounted for using the mark-to-market method of accounting, whereby changes in fair value are recorded directly to the condensed consolidated statements of operations; however, depending upon our risk profile and objectives, in certain limited cases, we may execute transactions that qualify for the hedge method of accounting.

Commodity Cash Flow Hedges Effective July 1, 2007, we elected to discontinue using the hedge method of accounting for derivatives that manage our commodity price risk. Prior to July 1, 2007, we used NGL, natural gas and crude oil swaps to mitigate a portion of the risk of market fluctuations in the price of NGLs, natural gas and condensate. Given our election to discontinue using the hedge method of accounting, the remaining net losses deferred in AOCI relative to cash flow hedges are reclassified to sales of natural gas, propane, NGLs and condensate, through December 2011, as the underlying transactions impact earnings.

Interest Rate Risk

Interest Rate Cash Flow Hedges We mitigate a portion of our interest rate risk with interest rate swaps, which reduce our exposure to market rate fluctuations by converting variable interest rates to fixed interest rates. These interest rate swap agreements convert the interest rate associated with an aggregate of $575.0 million of the indebtedness outstanding under our revolving credit facility to a fixed rate obligation through June 2012, thereby reducing the exposure to market rate fluctuations. All interest rate swap agreements have been designated as cash flow hedges, and effectiveness is determined by matching the principal balance and terms with that of the specified obligation. The effective portions of changes in fair value are recognized in AOCI in the condensed consolidated balance sheets and are reclassified into earnings as the hedged transactions impact earnings. The effect that these swaps have on our condensed consolidated financial statements, as well as the effect that is expected over the upcoming 12 months is summarized in the charts below. However, due to the volatility of the interest rate markets, the corresponding value in AOCI is subject to change prior to its reclassification into earnings. Ineffective portions of changes in fair value are recognized in earnings. $425.0 million of the agreements reprice prospectively approximately every 90 days and the remaining $150.0 million of the agreements reprice prospectively approximately every 30 days. Under the terms of the interest rate swap agreements, we pay fixed rates ranging from 2.26% to 5.19%, and receive interest payments based on the three-month and one-month LIBOR. The differences to be paid or received under the interest rate swap agreements are recognized as an adjustment to interest expense.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Contingent Credit Features

Each of the above risks is managed through the execution of individual contracts with a variety of counterparties. Certain of our derivative contracts may contain credit-risk related contingent provisions that may require us to take certain actions in certain circumstances.

We have International Swap Dealers Association, or ISDA, contracts which are standardized master legal arrangements that establish key terms and conditions which govern certain derivative transactions. These ISDA contracts contain standard credit-risk related contingent provisions. Some of the provisions we are subject to are outlined below.

- If we were to have an effective event of default under our Credit Agreement that occurs and is continuing, our ISDA counterparties may have the right to request early termination and net settlement of any outstanding derivative liability positions.

- In the event that DCP Midstream, LLC was to be downgraded below investment grade by at least one of the major credit rating agencies, certain of our ISDA counterparties may have the right to reduce our collateral threshold to zero, potentially requiring us to fully collateralize any commodity contracts in a net liability position.

- Additionally, in some cases, our ISDA contracts contain cross-default provisions that could constitute a credit-risk related contingent feature. These provisions apply if we default in making timely payments under those agreements and the amount of the default is above certain predefined thresholds, which are significantly high and are generally consistent with the terms of our Credit Agreement. As of June 30, 2010, we are not a party to any agreements that would be subject to these provisions other than our Credit Agreement.

Our commodity derivative contracts that are not governed by ISDA contracts do not have any credit-risk related contingent features.

Depending upon the movement of commodity prices and interest rates, each of our individual contracts with counterparties to our commodity derivative instruments or to our interest rate swap instruments are in either a net asset or net liability position. As of June 30, 2010, we had $35.0 million of individual commodity derivative contracts that contain credit-risk related contingent features that were in a net liability position, and have not posted any cash collateral relative to such positions. If a credit-risk related event were to occur and we were required to net settle our position with an individual counterparty, our ISDA contracts permit us to net all outstanding contracts with that counterparty, whether in a net asset or net liability position, as well as any cash collateral already posted. As of June 30, 2010 if a credit-risk related event were to occur we may be required to post additional collateral. Additionally, although our commodity derivative contracts that contain credit-risk related contingent features were in a net liability position as of June 30, 2010, if a credit-risk related event were to occur, the net liability position would be partially offset by contracts in a net asset position reducing our net liability to $31.5 million.

As of June 30, 2010, our interest rate swaps were in a net liability position of approximately $34.0 million of which, the entire amount is subject to credit-risk related contingent features. If we were to have a default of any of our covenants to our Credit Agreement, that occurs and is continuing, the counterparties to our swap instruments may have the right to request that we net settle the instrument in the form of cash.

Collateral

As of June 30, 2010, we had an outstanding letter of credit with a counterparty to our commodity derivative instruments of $10.0 million and DCP Midstream, LLC had issued and outstanding parental guarantees totaling $108.0 million in favor of certain counterparties to our commodity derivative instruments. This letter of credit and the parental guarantees reduce the amount of cash we may be required to post as collateral. As of June 30, 2010, we had no cash collateral posted with counterparties to our commodity derivative instruments.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summarized Derivative Information

The following summarizes the balance within AOCI relative to our commodity and interest rate cash flow hedges:

	June 30, 2010	December 31, 2009
	(Millions)	
Commodity cash flow hedges:		
Net deferred losses in AOCI	$ (0.4)	$ (0.8)
Interest rate cash flow hedges:		
Net deferred losses in AOCI	(33.3)	(31.1)
Total AOCI	$ (33.7)	$ (31.9)

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

Balance Sheet Line Item	June 30, 2010	December 31, 2009	Balance Sheet Line Item	June 30, 2010	December 31, 2009
	(Millions)			(Millions)	
Derivative Assets Designated as Hedging Instruments:			**Derivative Liabilities Designated as Hedging Instruments:**		
Interest rate derivatives:			**Interest rate derivatives:**		
Unrealized gains on derivative instruments current	$	$	Unrealized losses on derivative instruments current	$ (19.1)	$ (20.4)
Unrealized gains on derivative instruments long term			Unrealized losses on derivative instruments long term	(14.9)	(11.6)
	$	$		$ (34.0)	$ (32.0)
Derivative Assets Not Designated as Hedging Instruments:			**Derivative Liabilities Not Designated as Hedging Instruments:**		
Commodity derivatives:			**Commodity derivatives:**		
Unrealized gains on derivative instruments current	$ 2.8	$ 7.3	Unrealized losses on derivative instruments current	$ (11.2)	$ (21.1)
Unrealized gains on derivative instruments long term	5.2	2.0	Unrealized losses on derivative instruments long term	(24.5)	(46.4)
	$ 8.0	$ 9.3		$ (35.7)	$ (67.5)

24

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the impact on our condensed consolidated balance sheet and condensed consolidated statements of operations of our derivative instruments that are accounted for using the cash flow hedge method of accounting.

	Gain (Loss) Recognized in AOCI on Derivatives Effective Portion		Loss Reclassified From AOCI to Earnings Effective Portion			Gain (Loss) Recognized in Income on Derivatives Ineffective Portion and Amount Excluded From Effectiveness Testing		
	Three Months Ended June 30,							
	2010	2009	2010	2009		2010	2009	
	(Millions)		(Millions)			(Millions)		
Interest rate derivatives	$ (5.8)	$ 4.8	$ (5.6)	$ (4.6)	(a)	$	$	(a)(c)
Commodity derivatives	$	$	$	$ (0.1)	(b)	$	$	(b)(c)

(a) Included in interest expense in our condensed consolidated statements of operations.
(b) Included in sales of natural gas, propane, NGLs and condensate in our condensed consolidated statements of operations.
(c) For the three months ended June 30, 2010 and 2009, no derivative gains or losses were reclassified from AOCI to current period earnings as a result of the discontinuance of cash flow hedges related to certain forecasted transactions that are not probable of occurring.

	Gain (Loss) Recognized in AOCI on Derivatives Effective Portion		Loss Reclassified From AOCI to Earnings Effective Portion			Gain (Loss) Recognized in Income on Derivatives Ineffective Portion and Amount Excluded From Effectiveness Testing			Deferred Losses in AOCI Expected to be Reclassified into Earnings Over the Next 12 Months
	Six Months Ended June 30,								
	2010	2009	2010	2009		2010	2009		
	(Millions)		(Millions)			(Millions)			(Millions)
Interest rate derivatives	$ (13.4)	$ 0.3	$ (11.2)	$ (8.6)	(a)	$	$	(a)(c)	$ (18.4)
Commodity derivatives									