

DCP Midstream Partners, LP
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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)

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Delaware
(State or other jurisdiction
of incorporation or organization)

03-0567133
(I.R.S. Employer
Identification No.)

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

80202
(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 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

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

As of May 4, 2012, there were outstanding 51,755,841 common units representing limited partner interests.

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FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

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GLOSSARY OF TERMS

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

Bbl	barrel
Bbls/d	barrels per day
Bcf	one billion cubic feet
Bcf/d	one billion cubic feet per day
Btu	British thermal unit, a measurement of energy
Fractionation	the process by which natural gas liquids are separated into individual components
Frac spread	price differences, measured in energy units, between equivalent amounts of natural gas and NGLs
MBbls	one thousand barrels
MMBbls	one million barrels
MBbls/d	one thousand barrels per day
MMBtu	one million Btus
MMBtu/d	one million Btus per day
MMcf	one million cubic feet
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

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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, 2011, as well as the following risks and uncertainties:

the extent of changes in commodity prices and the demand for our products and services, 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 and the resulting cost of capital, which will depend on general market conditions, our financial and operating results, 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 in our loan agreements and our debt securities, as well as our ability to maintain our credit ratings;

the demand for NGL products by the petrochemical, refining or other industries or by the fuel markets;

our ability to purchase propane from our 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 materials;

the creditworthiness of counterparties to our transactions;

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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;

new, additions to and changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment, including climate change legislation and hydraulic fracturing regulations, 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 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.

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. The forward-looking statements in this report speak as of the filing date of this report. 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)**

	March 31, 2012	December 31, 2011
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6.1	\$ 7.6
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$0.3 million and \$0.3 million, respectively	70.1	108.6
Affiliates	106.7	106.2
Inventories	69.0	87.9
Unrealized gains on derivative instruments	38.2	41.2
Other	1.3	2.2
Total current assets	291.4	353.7
Property, plant and equipment, net	1,546.1	1,499.4
Goodwill	153.8	153.8
Intangible assets, net	143.2	145.3
Investments in unconsolidated affiliates	108.5	107.1
Unrealized gains on derivative instruments	31.2	6.4
Other long-term assets	14.7	11.7
Total assets	\$ 2,288.9	\$ 2,277.4
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 168.0	\$ 231.7
Affiliates	38.5	46.8
Unrealized losses on derivative instruments	52.6	59.9
Other	45.4	42.1
Total current liabilities	304.5	380.5
Long-term debt	865.2	746.8
Unrealized losses on derivative instruments	36.5	32.8
Other long-term liabilities	22.2	19.0
Total liabilities	1,228.4	1,179.1
Commitments and contingent liabilities		
Equity:		
Predecessor equity		257.4
Common unitholders (51,755,841 and 44,848,703 units issued and outstanding, respectively)	1,047.5	654.4

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General partner	(3.4)	(4.7)
Accumulated other comprehensive loss	(19.2)	(21.2)
Total partners' equity	1,024.9	885.9
Noncontrolling interests	35.6	212.4
Total equity	1,060.5	1,098.3
Total liabilities and equity	\$ 2,288.9	\$ 2,277.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended	
	2012	2011
	March 31,	
	(Millions)	
Operating revenues:		
Sales of natural gas, propane, NGLs and condensate	\$ 270.5	\$ 358.2
Sales of natural gas, propane, NGLs and condensate to affiliates	216.6	276.9
Transportation, processing and other	32.8	33.8
Transportation, processing and other to affiliates	11.0	5.2
Losses from commodity derivative activity, net	(9.0)	(39.1)
Gains (losses) from commodity derivative activity, net affiliates	3.7	(1.1)
Total operating revenues	525.6	633.9
Operating costs and expenses:		
Purchases of natural gas, propane and NGLs	294.2	409.3
Purchases of natural gas, propane and NGLs from affiliates	137.0	152.8
Operating and maintenance expense	26.3	28.6
Depreciation and amortization expense	25.2	24.3
General and administrative expense	4.6	4.4
General and administrative expense affiliates	7.3	7.3
Other income	(0.1)	(0.1)
Total operating costs and expenses	494.5	626.6
Operating income	31.1	7.3
Interest expense	(12.6)	(8.0)
Earnings from unconsolidated affiliates	5.7	4.5
Income before income taxes	24.2	3.8
Income tax expense	(0.2)	(0.3)
Net income	24.0	3.5
Net income attributable to noncontrolling interests	(0.7)	(3.5)
Net income attributable to partners	23.3	
Net income attributable to predecessor operations	(2.6)	(5.9)
General partner's interest in net income	(8.4)	(5.5)
Net income (loss) allocable to limited partners	\$ 12.3	\$ (11.4)
Net income (loss) per limited partner unit - basic	\$ 0.26	\$ (0.28)
Net income (loss) per limited partner unit - diluted	\$ 0.26	\$ (0.28)
Weighted-average limited partner units outstanding - basic	46.9	41.3
Weighted-average limited partner units outstanding - diluted	47.0	41.3

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See accompanying notes to condensed consolidated financial statements.

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DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(Millions)	
Net income	\$ 24.0	\$ 3.5
Other comprehensive income:		
Reclassification of cash flow hedges into earnings	5.3	5.3
Net unrealized gains (losses) on cash flow hedges	0.3	(0.9)
Total other comprehensive income	5.6	4.4
Total comprehensive income	29.6	7.9
Total comprehensive income attributable to noncontrolling interests	(0.7)	(3.5)
Total comprehensive income attributable to partners	\$ 28.9	\$ 4.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended March 31,	
	2012	2011
	(Millions)	
OPERATING ACTIVITIES:		
Net income	\$ 24.0	\$ 3.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	25.2	24.3
Earnings from unconsolidated affiliates	(5.7)	(4.5)
Distributions from unconsolidated affiliates	5.6	5.6
Net unrealized losses on derivative instruments	23.8	35.1
Other, net	0.4	2.0
Change in operating assets and liabilities, which provided (used) cash net of effects of acquisitions:		
Accounts receivable	55.1	29.3
Inventories	19.0	27.8
Accounts payable	(75.7)	(29.0)
Accrued interest	2.8	2.0
Other current assets and liabilities	(12.6)	(1.3)
Other long-term assets and liabilities	(0.9)	(2.1)
Net cash provided by operating activities	61.0	92.7
INVESTING ACTIVITIES:		
Capital expenditures	(53.4)	(33.1)
Acquisitions, net of cash acquired	(311.4)	(37.2)
Acquisition of unconsolidated affiliate		(114.2)
Investments in unconsolidated affiliates	(1.5)	(0.1)
Return of investment from unconsolidated affiliate	1.0	
Proceeds from sale of assets	0.1	0.2
Net cash used in investing activities	(365.2)	(184.4)
FINANCING ACTIVITIES:		
Proceeds from debt	722.4	547.0
Payments of debt	(604.0)	(519.0)
Payment of deferred financing costs	(2.7)	(0.1)
Excess purchase price over acquired assets		(35.7)
Proceeds from issuance of common units, net of offering costs	234.2	139.7
Net change in advances to predecessor from DCP Midstream, LLC	(11.5)	(7.2)
Distributions to unitholders and general partner	(36.7)	(30.1)
Distributions to noncontrolling interests	(1.7)	(5.4)
Contributions from DCP Midstream, LLC	2.7	2.9
Net cash provided by financing activities	302.7	92.1
Net change in cash and cash equivalents	(1.5)	0.4
Cash and cash equivalents, beginning of period	7.6	6.7

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Cash and cash equivalents, end of period	\$ 6.1	\$ 7.1
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See accompanying notes to condensed consolidated financial statements.

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DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Partner s Equity			Accumulated Other Comprehensive (Loss) Income (Millions)	Noncontrolling Interests	Total Equity
	Predecessor Equity	Common Unitholders	General Partner			
Balance, January 1, 2012	\$ 257.4	\$ 654.4	\$ (4.7)	\$ (21.2)	\$ 212.4	\$ 1,098.3
Net change in parent advances	(11.5)					(11.5)
Acquisition of additional 66.67% interest in Southeast Texas and NGL Hedge	(247.9)	39.5				(208.4)
Acquisition of additional 49.9% interest in East Texas					(175.8)	(175.8)
Issuance of units for Southeast Texas		48.0				48.0
Issuance of units for East Texas		33.0				33.0
Deficit purchase price under carrying value of acquired net assets		54.0		(4.2)		49.8
Issuance of 5,148,500 common units		234.0				234.0
Equity-based compensation		(0.8)				(0.8)
Distributions to unitholders and general partner		(29.6)	(7.1)			(36.7)
Distributions to noncontrolling interests					(1.7)	(1.7)
Contributions from DCP Midstream, LLC		2.7				2.7
Comprehensive income (loss):						
Net income attributable to predecessor operations	2.6					2.6
Net income		12.3	8.4		0.7	21.4
Reclassification of cash flow hedges into earnings				5.3		5.3
Net unrealized losses on cash flow hedges	(0.6)			0.9		0.3
Total comprehensive income	2.0	12.3	8.4	6.2	0.7	29.6
Balance, March 31, 2012	\$	\$ 1,047.5	\$ (3.4)	\$ (19.2)	\$ 35.6	\$ 1,060.5

Table of Contents**DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)**

	Partner's Equity			Accumulated Other Comprehensive (Loss) Income (Millions)	Noncontrolling Interests	Total Equity
	Predecessor Equity	Common Unitholders	General Partner			
Balance, January 1, 2011	\$ 337.8	\$ 552.2	\$ (6.4)	\$ (27.7)	\$ 220.1	\$ 1,076.0
Net change in parent advances	(2.9)					(2.9)
Acquisition of Southeast Texas	(114.3)					(114.3)
Excess purchase price over acquired assets		(35.7)				(35.7)
Issuance of 3,596,636 common units		139.6				139.6
Equity-based compensation		1.9				1.9
Distributions to DCP Midstream, LLC		(2.6)				(2.6)
Distributions to unitholders and general partner		(25.0)	(5.1)			(30.1)
Distributions to noncontrolling interests					(5.4)	(5.4)
Contributions from DCP Midstream, LLC					2.9	2.9
Comprehensive income (loss):						
Net income attributable to predecessor operations	5.9					5.9
Net income		(11.4)	5.5		3.5	(2.4)
Reclassification of cash flow hedges into earnings				5.3		5.3
Net unrealized losses on cash flow hedges				(0.9)		(0.9)
Total comprehensive (loss) income	5.9	(11.4)	5.5	4.4	3.5	7.9
Balance, March 31, 2011	\$ 226.5	\$ 619.0	\$ (6.0)	\$ (23.3)	\$ 221.1	\$ 1,037.3

See accompanying notes to condensed consolidated financial statements.

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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 or the Partnership, is engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas; and producing, fractionating, transporting, storing 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 natural gas services business (which 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 Collbran Valley Gas Gathering, LLC, or Collbran or our Colorado system; DCP East Texas Holdings, LLC, or our East Texas system (of which 49.9% was acquired in January 2012); our Michigan system; DCP Southeast Texas Holdings, GP, or our Southeast Texas system (of which 33.33% and 66.67% were acquired in January 2011 and March 2012, respectively), our NGL logistics business (which includes the Seabreeze and Wilbreeze intrastate NGL pipelines, the Wattenberg and Black Lake interstate NGL pipelines, the NGL storage facility in Michigan and the DJ Basin NGL Fractionators in Colorado), and our wholesale propane logistics business.

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. As of March 31, 2011, DCP Midstream, LLC and its subsidiaries and affiliates, collectively referred to as DCP Midstream, LLC, was owned 50% by Spectra Energy Corp, or Spectra Energy, and 50% by ConocoPhillips. During the third quarter of 2011, ConocoPhillips announced plans to separate its business into two stand-alone publicly traded companies, and completed the separation in May 2012. As a result of this transaction, DCP Midstream, LLC is no longer owned 50% by ConocoPhillips. ConocoPhillips' 50% ownership interest in DCP Midstream, LLC has been transferred to the new downstream company, Phillips 66. We do not anticipate that the change in ownership will have a material impact on our business or operations. 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 most of our assets. DCP Midstream, LLC owns approximately 27% of us.

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

Our predecessor operations consist of our initial 33.33% interest in Southeast Texas, which we acquired from DCP Midstream, LLC in January 2011, and the remaining 66.67% interest in Southeast Texas and commodity derivative instruments related to the Southeast Texas storage business, which we acquired from DCP Midstream, LLC in March 2012. Prior to our acquisition of the remaining 66.67% interest in Southeast Texas, we accounted for our initial 33.33% interest as an unconsolidated affiliate using the equity method. Subsequent to this transaction, we own 100% of Southeast Texas which we account for as a consolidated subsidiary. These transfers of net assets between entities under common control were accounted for as if the transfer occurred at the beginning of the period, and prior years were retrospectively adjusted to furnish comparative information similar to the pooling method. Accordingly, our consolidated financial statements include the historical results of our 100% interest in Southeast Texas and the natural gas commodity derivatives associated with the storage business for all periods presented. We recognize transfers of net assets between entities under common control at DCP Midstream, LLC's basis in the net assets contributed. The amount of the purchase price in excess or in deficit of DCP Midstream, LLC's basis in the net assets is recognized as a reduction or an addition to partners' equity. The 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.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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 condensed 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. All intercompany balances and transactions have been eliminated. Transactions between us and other DCP Midstream, LLC operations have been identified in the condensed consolidated financial statements as transactions between affiliates.

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 adjustments, consisting only of 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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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 2011 Annual Report on Form 10-K.

2. Recent Accounting Pronouncements

Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, or ASU 2011-04 In May 2011, the FASB issued ASU 2011-04 which amends Accounting Standards Codification, Topic 820 Fair Value Measurements and Disclosures to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, clarify the FASB's intent about the application of existing fair value measurement requirements, and change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The provisions of ASU 2011-04 became effective for us for interim and annual periods beginning after December 15, 2011. The provisions of ASU 2011-04 impact only disclosures, and we have disclosed information in accordance with the provisions of ASU 2011-04 within this filing.

3. Acquisitions

On March 30, 2012, we acquired the remaining 66.67% interest in Southeast Texas, and commodity derivative instruments related to the Southeast Texas storage business, for aggregate consideration of \$240.0 million, subject to certain working capital and other customary purchase price adjustments. \$192.0 million of the aggregate purchase price was financed with a portion of the net proceeds from our 4.95% 10-year Senior Notes offering. The remaining \$48.0 million consideration was financed by the issuance at closing of an aggregate of 1,000,417 of our common units. DCP Midstream, LLC also provided fixed price NGL commodity derivatives, valued at \$39.5 million, for the three year period subsequent to closing the newly acquired interest. The \$29.6 million deficit purchase price under the historical basis of the net assets acquired and the \$48.0 million of common units issued as consideration for this acquisition were recorded as an increase in common unitholders equity. Prior to the acquisition of the additional interest in Southeast Texas, we owned a 33.33% interest which we accounted for as an unconsolidated affiliate using the equity method. The acquisition of the remaining 66.67% interest in Southeast Texas represents a transaction between entities under common control and a change in reporting entity. Accordingly, our consolidated financial statements have been adjusted to retrospectively include the historical results of our 100% interest in Southeast Texas and the natural gas commodity derivatives associated with the storage business for all periods presented, similar to the pooling method.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Combined Financial Information**

The results of our 100% interest in Southeast Texas are included in the condensed consolidated balance sheets as of March 31, 2012 and December 31, 2011. The following table presents the previously reported December 31, 2011 condensed consolidated balance sheet, adjusted for the acquisition of the remaining 66.67% interest in Southeast Texas from DCP Midstream, LLC:

As of December 31, 2011

	DCP Midstream Partners, LP (As previously reported) (a)	Consolidate Southeast Texas (b)	Remove Southeast Texas Investment in Unconsolidated Affiliate(c)	Combined DCP Midstream Partners, LP (As currently reported)
(Millions)				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 6.7	\$ 0.9	\$	\$ 7.6
Accounts receivable	161.4	53.4		214.8
Inventories	64.7	23.2		87.9
Other	7.1	36.3		43.4
Total current assets	239.9	113.8		353.7
Property, plant and equipment, net	1,181.8	317.6		1,499.4
Goodwill and intangible assets, net	255.8	43.3		299.1
Investments in unconsolidated affiliates	208.7		(101.6)	107.1
Other non-current assets	17.4	0.7		18.1
Total assets	\$ 1,903.6	\$ 475.4	\$ (101.6)	\$ 2,277.4
LIABILITIES AND EQUITY				
Accounts payable and other current liabilities	\$ 269.2	\$ 111.3	\$	\$ 380.5
Long-term debt	746.8			746.8
Other long-term liabilities	46.7	5.1		51.8
Total liabilities	1,062.7	116.4		1,179.1
Commitments and contingent liabilities				
Equity:				
Partners' equity				
Net equity	649.7	360.8	(103.4)	907.1
Accumulated other comprehensive income	(21.2)	(1.8)	1.8	(21.2)
Total partners' equity	628.5	359.0	(101.6)	885.9
Noncontrolling interests	212.4			212.4

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Total equity	840.9	359.0	(101.6)	1,098.3
Total liabilities and equity	\$ 1,903.6	\$ 475.4	\$ (101.6)	\$ 2,277.4

- (a) Amounts as previously reported with 33.33% of Southeast Texas results presented as investments in unconsolidated affiliates.
- (b) Adjustments to present Southeast Texas on a consolidated basis at 100% ownership, including commodity derivatives.
- (c) Adjustments to remove Southeast Texas 33.33% investment in unconsolidated affiliates.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The results of our 100% interest in Southeast Texas are included in the condensed consolidated statements of operations for the three months ended March 31, 2012 and 2011. The following table presents the previously reported condensed consolidated statements of operations for the three months ended March 31, 2011, adjusted for the acquisition of the remaining 66.67% interest in Southeast Texas from DCP Midstream, LLC:

Three Months Ended March 31, 2011

	DCP Midstream Partners, LP (As previously reported) (a)	Consolidate Southeast Texas (b)	Remove Southeast Texas Equity Earnings (c)	Combined DCP Midstream Partners, LP (As currently reported)
	(Millions)			
Operating revenues:				
Sales of natural gas, propane, NGLs and condensate	\$ 429.7	\$ 205.4	\$	\$ 635.1
Transportation, processing and other	35.6	3.4		39.0
Losses from commodity derivative activity, net	(40.2)			(40.2)
Total operating revenues	425.1	208.8		633.9
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	375.0	187.1		562.1
Operating and maintenance expense	24.1	4.5		28.6
Depreciation and amortization expense	19.9	4.4		24.3
General and administrative expense	9.0	2.7		11.7
Other income	(0.1)			(0.1)
Total operating costs and expenses	427.9	198.7		626.6
Operating (loss) income	(2.8)	10.1		7.3
Interest expense, net	(8.0)			(8.0)
Earnings from unconsolidated affiliates	8.6		(4.1)	4.5
(Loss) income before income taxes	(2.2)	10.1	(4.1)	3.8
Income tax expense	(0.2)	(0.1)		(0.3)
Net (loss) income	(2.4)	10.0	(4.1)	3.5
Net income attributable to noncontrolling interests	(3.5)			(3.5)
Net (loss) income attributable to partners	\$ (5.9)	\$ 10.0	\$ (4.1)	\$

(a) Amounts as previously reported with 33.33% of Southeast Texas results presented as earnings from unconsolidated affiliates.

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(b) Adjustments to present Southeast Texas on a consolidated basis at 100% ownership, including commodity derivatives.

(c) Adjustments to remove Southeast Texas equity earnings at 33.33%.

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

On January 3, 2012, we acquired the remaining 49.9% interest in East Texas from DCP Midstream, LLC for aggregate consideration of \$165.0 million, subject to certain working capital and other customary purchase price adjustments. \$132.0 million of the aggregate purchase price was financed with the net proceeds from our Term Loan Agreement. The remaining \$33.0 million consideration was financed by the issuance at closing of an aggregate of 727,520 of our common units. The \$20.2 million deficit purchase price under the historical basis of the net assets acquired and the \$33.0 million of common units issued as consideration for this acquisition were recorded as an increase in common unitholders equity. Prior to the contribution of the additional interest in East Texas, we owned a 50.1% interest which we accounted for as a consolidated subsidiary. The contribution of the remaining 49.9% interest in East Texas represents a transaction between entities under common control, but does not represent a change in reporting entity. Accordingly, we have included the results of the remaining 49.9% interest in East Texas prospectively from the date of contribution.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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. In January 2012, in conjunction with our acquisition of the remaining 49.9% interest in East Texas, we increased the annual fee we pay to DCP Midstream, LLC by \$7.4 million. In March 2012, in conjunction with our acquisition of the remaining 66.67% interest in Southeast Texas, we increased the annual fee we pay to DCP Midstream, LLC by \$10.3 million, prorated for the remainder of the calendar year. These fees were previously allocated to East Texas and Southeast Texas. As a result of these transactions, the annual fee we pay to DCP Midstream, LLC will be \$27.9 million.

Following is a summary of the fees we incurred under the Omnibus Agreement as well as other fees paid to DCP Midstream, LLC:

	Three Months Ended	
	March 31,	
	2012	2011
	(Millions)	
Omnibus Agreement	\$ 4.4	\$ 2.5
Other fees DCP Midstream, LLC	2.8	4.7
Total DCP Midstream, LLC	\$ 7.2	\$ 7.2

In addition to the Omnibus Agreement, we incurred other general and administrative fees with DCP Midstream, LLC of \$0.3 million, for each of the three months ended March 31, 2012 and 2011. These amounts include allocated expenses, including professional services, insurance and internal audit. For the three months ended March 31, 2012, Southeast Texas incurred \$2.5 million in general and administrative expenses directly from DCP Midstream, LLC, before the addition of Southeast Texas to the Omnibus Agreement in March 2012. For the three months ended March 31, 2011, East Texas incurred \$1.9 million in general and administrative expenses directly from DCP Midstream, LLC.

Other Agreements and Transactions with DCP Midstream, LLC

DCP Midstream, LLC was a significant customer during the three months ended March 31, 2012 and 2011.

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 and services to DCP Midstream, LLC in the ordinary course of business. In addition, DCP Midstream, LLC conducts derivative activities on our behalf. We have and may continue to enter into market based derivative transactions directly with DCP Midstream, LLC, whereby DCP Midstream is the counterparty.

We have a contractual arrangement with DCP Midstream, LLC, through March 2022, 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 for adjustments to those fees based upon plant efficiencies related to our portion of volumes from the 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

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as transportation, processing and other to affiliates.

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 an interruptible 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 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.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In conjunction with our acquisitions of our East Texas system, which is part of our Natural Gas Services segment, we entered into agreements with DCP Midstream, LLC whereby DCP Midstream, LLC will reimburse us for certain expenditures on East Texas capital projects. These reimbursements are for certain capital projects which have commenced within three years from the respective acquisition dates. DCP Midstream, LLC made capital contributions to East Texas for capital projects of \$2.7 million and \$2.9 million for the three months ended March 31, 2012 and 2011, respectively.

In our Natural Gas Services segment, we sell NGLs processed at certain of our plants, and sell condensate removed from the gas gathering systems that deliver to certain of our systems under contracts to a subsidiary of DCP Midstream, LLC equal to that subsidiary's net weighted-average sales price, adjusted for transportation, processing and other charges from the tailgate of the respective asset.

In our NGL Logistics segment, we also have a contractual arrangement with a subsidiary of DCP Midstream, LLC which 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 consolidated statements of operations as transportation, processing and other to affiliates.

In conjunction with our Wattenberg pipeline and effective January 1, 2011, we entered into a 10-year dedication and transportation agreement with a subsidiary of DCP Midstream, LLC whereby certain NGL volumes produced at several of DCP Midstream, LLC's processing facilities are dedicated for transportation on the Wattenberg pipeline. We collect fee-based transportation revenues under our tariff. We generally report revenues associated with these activities in the consolidated statements of operations as transportation, processing and other to affiliates.

We pay a fee to DCP Midstream, LLC to operate our DJ Basin NGL Fractionators and receive fees for the processing of DCP Midstream, LLC's committed NGLs produced by them in Weld County, Colorado at our DJ Basin NGL Fractionators under agreements that are effective through March 2018. During the three months ended March 31, 2012 we incurred fees of \$0.2 million, which are included in operating and maintenance expense in the consolidated statements of operations.

DCP Midstream, LLC has issued parental guarantees, totaling \$70.0 million as of March 31, 2012, 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 a fee of 0.5% per annum on these outstanding guarantees.

On January 3, 2012, we acquired the remaining 49.9% interest in East Texas from DCP Midstream, LLC. DCP Midstream, LLC previously issued parental guarantees for its 49.9% limited liability company interest in East Texas. As of March 31, 2012, parental guarantees totaling \$5.0 million remained outstanding. These guarantees terminated in April 2012.

Spectra Energy

We had propane supply agreements with Spectra Energy, effective through April 2012, which provided us propane supply at our marine terminals, which were included in our Wholesale Propane Logistics segment, for up to approximately 185 million gallons of propane annually. We have contracted with marine import suppliers in the past and will continue to secure optimal supply sources in the future as part of a diversified supply portfolio.

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 to ConocoPhillips and its affiliates in the ordinary course of business.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Summary of Transactions with Affiliates**

The following table summarizes transactions with affiliates:

	Three Months Ended	
	March 31,	
	2012	2011
	(Millions)	
DCP Midstream, LLC:		
Sales of natural gas, propane, NGLs and condensate	\$ 209.2	\$ 265.4
Transportation, processing and other	\$ 9.2	\$ 3.2
Purchases of natural gas, propane and NGLs	\$ 59.9	\$ 63.0
Gains from commodity derivative activity, net	\$ 3.7	\$ (1.0)
General and administrative expense	\$ 7.2	\$ 7.2
Interest expense	\$	\$
Spectra Energy:		
Purchases of natural gas, propane and NGLs	\$ 73.7	\$ 85.2
ConocoPhillips:		
Sales of natural gas, propane, NGLs and condensate	\$ 7.4	\$ 11.5
Transportation, processing and other	\$ 1.8	\$ 2.0
Purchases of natural gas, propane and NGLs	\$ 1.0	\$ 1.5
General and administrative expense	\$ 0.1	\$ 0.1
Unconsolidated affiliates:		
Purchases of natural gas, propane and NGLs	\$ 2.4	\$ 3.1

We had balances with affiliates as follows:

	March 31,	December 31,
	2012	2011
	(Millions)	
DCP Midstream, LLC:		
Accounts receivable	\$ 103.4	\$ 100.0
Accounts payable	\$ 35.8	\$ 22.6
Unrealized gains on derivative instruments	\$ 34.4	\$ 0.6
Unrealized gains on derivative instruments	\$ 27.3	\$
Unrealized losses on derivative instruments	\$ (13.0)	\$ (0.6)
Unrealized losses on derivative instruments	\$ (3.8)	\$
Spectra Energy:		
Accounts receivable	\$ 0.1	\$ 0.1
Accounts payable	\$ 2.4	\$ 21.4
ConocoPhillips:		
Accounts receivable	\$ 3.2	\$ 6.1
Accounts payable	\$ 0.3	\$ 0.4
Unrealized gains on derivative instruments	\$	\$ 2.5
Unrealized losses on derivative instruments	\$	\$ (2.0)

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Unconsolidated affiliates:

Accounts payable	\$	\$	2.4
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Inventories were as follows:

	March 31, 2012	December 31, 2011
	(millions)	
Natural gas	\$ 17.4	\$ 25.6
NGLs	51.6	62.3
Total inventories	\$ 69.0	\$ 87.9

6. Property, Plant and Equipment

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

	Depreciable Life	March 31, 2012	December 31, 2011
		(Millions)	
Gathering and transmission systems	15 30 Years	\$ 1,198.3	\$ 1,191.9
Processing, storage, and terminal facilities	20 50 Years	773.5	764.3
Other	0 30 Years	21.6	21.6
Construction work in progress		272.4	218.3
Property, plant and equipment		2,265.8	2,196.1
Accumulated depreciation		(719.7)	(696.7)
Property, plant and equipment, net		\$ 1,546.1	\$ 1,499.4

Interest capitalized on construction projects for the three months ended March 31, 2012 and 2011 were \$1.2 million and \$0.2 million, respectively.

Depreciation expense was \$23.1 million and \$22.2 million for the three months ended March 31, 2012 and 2011, respectively.

Asset Retirement Obligations As of March 31, 2012, we had asset retirement obligations of \$16.1 million included in other long-term liabilities in the condensed consolidated balance sheets. As of December 31, 2011, we had asset retirement obligations of \$12.4 million included in other long-term liabilities in the condensed consolidated balance sheets. During the first quarter of 2012, we recorded a change in estimate to increase our asset retirement obligations by approximately \$4.3 million. The change in estimate was primarily attributable to a reassessment of anticipated timing of settlements and of the original asset retirement obligation estimated amounts. For the three months ended March 31, 2012, accretion benefit was \$0.6 million and for the three months ended March 31, 2011, accretion expense was \$0.2 million.

7. Goodwill and Intangible Assets

The change in the carrying amount of goodwill was as follows:

	March 31, 2012	December 31, 2011
	(Millions)	
Beginning of period	\$ 153.8	\$ 151.2
Acquisitions		2.6
End of period	\$ 153.8	\$ 153.8

The carrying value of goodwill as of March 31, 2012 and December 31, 2011 was \$82.2 million for each of the periods for our Natural Gas Services segment, \$34.7 million for each of the periods for our NGL logistics segment, and \$36.9 million for each of the periods for our Wholesale Propane Logistics segment.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Intangible assets consist of customer contracts, including commodity purchase, transportation and processing contracts, and related relationships. The gross carrying amount and accumulated amortization of these intangible assets are included in the accompanying consolidated balance sheets as intangible assets, net, and were as follows:

	March 31, 2012	December 31, 2011
	(Millions)	
Gross carrying amount	\$ 164.3	\$ 164.3
Accumulated amortization	(21.1)	(19.0)
Intangible assets, net	\$ 143.2	\$ 145.3

For each of the three months ended March 31, 2012 and 2011, we recorded amortization expense of \$2.1 million. As of March 31, 2012, the remaining amortization periods ranged from approximately 10 years to 23 years, with a weighted-average remaining period of approximately 18 years.

Estimated future amortization for these intangible assets is as follows:

Estimated Future Amortization (Millions)	
Remainder of 2012	\$ 6.3
2013	8.4
2014	8.4
2015	8.4
2016	8.4
Thereafter	103.3
Total	\$ 143.2

8. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

Percentage of Ownership as of March 31, 2012 and December 31, 2011	Carrying Value as of	
	March 31, 2012	December 31, 2011
	(Millions)	

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Discovery Producer Services LLC	40%	\$ 108.3	\$ 106.9
Other	50%	0.2	0.2
Total investments in unconsolidated affiliates		\$ 108.5	\$ 107.1

There was a deficit between the carrying amount of the investment and the underlying equity of Discovery of \$32.0 million and \$32.6 million at March 31, 2012 and December 31, 2011, respectively, which is associated with, and is being accreted over, the life of the underlying long-lived assets of Discovery.

Earnings from investments in unconsolidated affiliates were as follows:

	Three Months Ended	
	March 31,	
	2012	2011
	(Millions)	
Discovery Producer Services LLC	\$ 5.7	\$ 4.5
Total earnings from unconsolidated affiliates	\$ 5.7	\$ 4.5

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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

	Three Months Ended March 31,	
	2012	2011
	(Millions)	
Statements of operations:		
Operating revenue	\$ 47.2	\$ 50.7
Operating expenses	\$ 34.7	\$ 40.9
Net income	\$ 12.7	\$ 9.8

	March 31, 2012	December 31, 2011
	(Millions)	
Balance sheets:		
Current assets	\$ 34.8	\$ 38.0
Long-term assets	390.2	360.7
Current liabilities	(44.7)	(21.1)
Long-term liabilities	(29.1)	(28.5)
Net assets	\$ 351.2	\$ 349.1

9. Fair Value Measurement***Determination of Fair Value***

Below is a general description of our valuation methodologies for derivative financial assets and liabilities which are measured at fair value. Fair values are generally based upon quoted market prices or prices obtained through external sources, 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. Fair values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. 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.

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.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 11 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.

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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.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 existing floating rate debt for fixed-rate debt. Our 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.

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 as of 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 condensed 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.

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.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents the financial instruments carried at fair value as of March 31, 2012 and December 31, 2011, by consolidated balance sheet caption and by valuation hierarchy as described above:

	March 31, 2012			Total Carrying Value (Millions)	December 31, 2011			Total Carrying Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Current assets:								
Commodity derivatives (a)	\$	\$ 23.6	\$ 14.6	\$ 38.2	\$	\$ 40.1	\$ 1.1	\$ 41.2
Long-term assets:								
Commodity derivatives (b)	\$	\$ 3.3	\$ 27.9	\$ 31.2	\$	\$ 5.4	\$ 1.0	\$ 6.4
Current liabilities (c):								
Commodity derivatives	\$	\$ (42.7)	\$ (2.6)	\$ (45.3)	\$	\$ (43.1)	\$ (0.7)	\$ (43.8)
Interest rate derivatives	\$	\$ (7.3)	\$	\$ (7.3)	\$	\$ (16.1)	\$	\$ (16.1)
Long-term liabilities (d):								
Commodity derivatives	\$	\$ (31.8)	\$ (0.4)	\$ (32.2)	\$	\$ (27.5)	\$ (0.3)	\$ (27.8)
Interest rate derivatives	\$	\$ (4.3)	\$	\$ (4.3)	\$	\$ (5.0)	\$	\$ (5.0)

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

Changes in Levels 1 and 2 Fair Value Measurements

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. 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. The determination to classify a financial instrument within Level 1 or Level 2 is based upon the availability of quoted prices for identical or similar assets and liabilities in active markets. Depending upon the information readily observable in the market, and/or the use of identical or similar quoted prices, which are significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. 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. In the event that there is a movement between the classification of an instrument as Level 1 or 2, the transfer between Level 1 and Level 2 would be reflected in a table as Transfers in/out of Level 1/Level 2. During the three months ended March 31, 2012, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****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. The significant unobservable inputs used in determining fair value include adjustments by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. In the event that there is a movement to/from the classification of an instrument as Level 3, we have reflected such items in the table below within the Transfers in/out of Level 3 caption.

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.

	Current Assets	Commodity Derivative Instruments		Long-Term Liabilities
		Long-Term Assets	Current Liabilities	
	(Millions)			
Three months ended March 31, 2012 (a):				
Beginning balance	\$ 1.1	\$ 1.0	\$ (0.7)	\$ (0.3)
Net realized and unrealized losses included in earnings (d)	1.0	0.2	(1.7)	(0.1)
Transfers into Level 3 (c)				
Transfers out of Level 3 (c)				
Settlements	(0.3)		0.2	
Purchases	12.8	26.7	(0.4)	
Ending balance	\$ 14.6	\$ 27.9	\$ (2.6)	\$ (0.4)
Net unrealized losses still held included in earnings (d)	\$ 1.0	\$ 0.3	\$ (2.0)	\$ (0.1)
Three months ended March 31, 2011 (b):				
Beginning balance	\$ 0.3	\$ 0.3	\$ (0.1)	\$ (0.5)
Net realized and unrealized (losses) gains included in earnings (d)		(0.1)	(2.2)	(1.9)
Transfers into Level 3 (c)				
Transfers out of Level 3 (c)				
Settlements	(0.1)			
Ending balance	\$ 0.2	\$ 0.2	\$ (2.3)	\$ (2.4)
Net unrealized gains still held included in earnings (d)	\$	\$ (0.1)	\$ (2.2)	\$ (1.9)

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- (a) There were no issuances and sales for the three months ended March 31, 2012.
- (b) There were no purchases, issuances and sales for the three months ended March 31, 2011.
- (c) Amounts transferred in and amounts transferred out are reflected at fair value as of the end of the period. We had no transfers into and out of Level 3.
- (d) 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.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Quantitative Information and Fair Value Sensitivities Related to Level 3 Unobservable Inputs***

We utilize the market approach to measure the fair value of our commodity contracts. The significant unobservable inputs used in this approach to fair value are longer dated price quotes. Our sensitivity to these longer dated forward curve prices are presented in the table below. Significant changes in any of those inputs in isolation would result in significantly different fair value measurements, depending our short or long position in contracts.

Product Group	Fair Value (Millions)	Forward Curve Range	
<u>Assets</u>			
NGL s	\$40.0	\$0.38-\$2.38	Per gallon
Natural Gas	\$2.5	\$3.09-\$4.20	Per MMBtu
<u>Liabilities</u>			
NGL s	\$(2.2)	\$1.23-\$2.38	Per gallon
Natural Gas	\$(0.8)	\$3.30-\$4.20	Per MMBtu

Estimated Fair Value of Financial Instruments

Valuation of a contract's fair value is validated by an internal group independent of the marketing group. While common industry practices are used to develop valuation techniques, changes in pricing methodologies or the underlying assumptions could result in significantly different fair values and income recognition. When available, quoted market prices or prices obtained through external sources are used to determine a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on pricing models developed primarily from historical and expected relationship with quoted market prices.

Values are adjusted to reflect the credit risk inherent in the transaction as well as the potential impact of liquidating open positions in an orderly manner over a reasonable time period under current conditions. Changes in market prices and management estimates directly affect the estimated fair value of these contracts. Accordingly, it is reasonably possible that such estimates may change in the near term.

The fair value of our interest rate swaps and commodity non-trading derivatives is based on prices supported by quoted market prices and other external sources and prices based on models and other valuation methods. The prices supported by quoted market prices and other external sources category includes our interest rate swaps, our NYMEX positions in natural gas, NGLs and crude oil. In addition, this category includes our forward positions in natural gas for which our forward price curves are obtained from a third party pricing service and then validated through an internal process which includes the use of independent broker quotes. This category also includes our forward positions in NGLs at points for which over-the-counter, or OTC, broker quotes for similar assets or liabilities are available for the full term of the instrument. This category also includes strip transactions whose pricing inputs are directly or indirectly observable from external sources and then modeled to daily or monthly prices as appropriate. The prices based on models and other valuation methods category includes the value of transactions for which inputs to the fair value of the instrument are unobservable in the marketplace and are considered significant to the overall fair value of the instrument. The fair value of these instruments may be based upon an internally developed price curve, which was constructed as a result of the long dated nature of the transaction or the illiquidity of the market point.

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.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The fair value of 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. Each of the carrying and fair values of outstanding balances under our Credit Agreement are \$267.0 million as of March 31, 2012, and \$497.0 million as of December 31, 2011. The carrying and fair values of the 4.95% Senior Notes are \$350.0 million and \$351.7 million, respectively, as of March 31, 2012. The carrying and fair values of the 3.25% Senior Notes are \$250.0 million and \$252.2 million as of March 31, 2012. The carrying value of the 3.25% Senior Notes as of December 31, 2011 was \$250.0 million, which approximated fair value. 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. We determine the fair value of our fixed-rate debt based on quotes obtained from bond dealers. We classify the fair values of our outstanding debt balances within Level 2 of the valuation hierarchy.

10. Debt

Long-term debt was as follows:

	March 31, 2012	December 31, 2011
	(Millions)	
Credit Agreement		
Revolving credit facility, weighted-average variable interest rate of 1.56% and 1.69%, respectively, and net effective interest rate of 3.97% and 4.86%, respectively, due November 10, 2016 (a)	\$ 267.0	\$ 497.0
Debt Securities		
Issued March 13, 2012, interest at 4.95% payable semi-annually, due April 1, 2022	350.0	
Issued September 30, 2010, interest at 3.25% payable semi-annually, due October 1, 2015	250.0	250.0
Unamortized discount	(1.8)	(0.2)
Total long-term debt	\$ 865.2	\$ 746.8

(a) This debt has been swapped to a fixed rate obligation with effective fixed rates ranging from 2.94% to 5.19%, for a net effective rate of 3.97% on the \$267.0 million of outstanding debt under our revolving credit facility as of March 31, 2012.

Credit Agreement

We have a \$1.0 billion revolving credit facility that matures November 10, 2016, or the Credit Agreement.

At March 31, 2012 and December 31, 2011, we had \$1.1 million of letters of credit issued and outstanding under the Credit Agreement. As of March 31, 2012, the unused capacity under the revolving credit facility was \$731.9 million, of which approximately \$591.1 million was available for general working capital purposes.

Our borrowing capacity is limited at March 31, 2012 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 November 10, 2016 maturity date.

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Under the Credit Agreement, indebtedness under the revolving credit facility bears interest at either: (1) LIBOR, plus an applicable margin ranging from 0.85% to 1.65% depending on our credit rating; or (2)(a) the base rate which shall be the higher of Wells Fargo Bank N.A.'s prime rate, the Federal Funds rate plus 0.50% or the LIBOR Market Index rate plus 1%, plus (b) an applicable margin ranging from 0% to 0.65% depending on our credit rating. The revolving credit facility incurs an annual facility fee of 0.15% to 0.35% depending on our credit rating. This fee is paid on drawn and undrawn portions of the revolving credit facility.

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.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Debt Securities***

On March 13, 2012, we issued \$350.0 million of 4.95% 10-year Senior Notes due April 1, 2022. We received proceeds of \$345.8 million, which are net of underwriters' fees, related expenses and unamortized discounts of \$2.3 million, \$0.3 million and \$1.6 million, respectively, which we used to fund a portion of the acquisition of the remaining 66.67% interest in Southeast Texas and to repay funds borrowed under our Term Loan and Credit Facility. Interest on the notes will be paid semi-annually on April 1 and October 1 of each year, commencing October 1, 2012. The notes will mature on April 1, 2022, unless redeemed prior to maturity. The underwriters' fees and related expenses are deferred in other long-term assets in our condensed consolidated balance sheets and will be amortized over the term of the notes.

On September 30, 2010, we issued \$250.0 million of 3.25% 5-year Senior Notes due October 1, 2015. We received proceeds of \$247.7 million, which are net of underwriters' fees, related expenses and unamortized discounts of \$1.5 million, \$0.6 million and \$0.2 million, respectively, which we used to repay funds borrowed under the revolver portion of our Credit Facility. Interest on the notes will be paid semi-annually on April 1 and October 1 of each year, commencing April 1, 2011. The notes will mature on October 1, 2015, unless redeemed prior to maturity. The underwriters' fees and related expenses are deferred in other long-term assets in our condensed consolidated balance sheets and will be amortized over the term of the notes.

Both series of notes are senior unsecured obligations, ranking equally in right of payment with other unsecured indebtedness, including indebtedness under our Credit Facility. We are not required to make mandatory redemption or sinking fund payments with respect to any of these notes, and they are redeemable at a premium at our option.

Term Loan Agreement

On January 3, 2012, we entered into a 2-year Term Loan Agreement with Wells Fargo Bank, National Association, SunTrust Bank and The Bank of Tokyo-Mitsubishi UFJ, Ltd. as lenders. We borrowed \$135.0 million under the term loan on January 3, 2012, which was used to fund a portion of the acquisition of the remaining 49.9% interest in East Texas. In March 2012, we repaid the term loan with proceeds from our 4.95% 10-year Senior Notes.

Other Agreements

As of March 31, 2012, we had a contingent letter of credit for up to \$10.0 million, on which we pay a fee of 0.50% per annum. This facility reduces the amount of cash we may be required to post as collateral. As of March 31, 2012, we had no letters of credit issued on this facility. Any letters of credit issued on this facility will incur a fee of 1.75% per annum and will not reduce the available capacity under our credit facility.

The future maturities of long-term debt in the year indicated are as follows:

	Debt Maturities (Millions)
2011	\$
2012	
2013	
2014	
2015	250.0
Thereafter	617.0

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Unamortized discount	(1.8)
Total	\$ 865.2

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****11. 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

Cash Flow Protection Activities 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, processing and storage services, we may receive cash 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 2016 with commodity derivative instruments. Given the limited liquidity and tenor of the NGL derivatives market, we have primarily utilized crude oil swaps and costless collars to mitigate a portion of our commodity price exposure for NGLs. For the nearer tenor where there is greater liquidity in the NGL derivatives market, we have periodically also utilized NGL derivatives. 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 pricing. When the relationship of NGL prices to crude oil prices is at a discount to historical ranges, we experience additional exposure as a result of the relationship. When our crude oil swaps become short-term in nature, we have periodically converted certain crude oil derivatives to NGL derivatives by entering into offsetting crude oil swaps while adding NGL swaps. Our crude oil and NGL transactions are primarily accomplished through the use of forward contracts that effectively exchange our floating price risk for a fixed price. We also utilize crude oil costless collars that minimize our floating price risk by establishing a fixed price floor and a fixed price ceiling. 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 consolidated statements of operations as a gain or a loss on commodity derivative activity.

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 any change in fair 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.

Natural Gas Storage and Pipeline Asset Based Commodity Derivative Program Our natural gas storage and pipeline assets are exposed to certain risks including changes in commodity prices. We manage commodity price risk related to our natural gas storage and pipeline assets through our commodity derivative program. The commercial activities related to our natural gas storage and pipeline assets primarily consist of the purchase and sale of gas and associated time spreads and basis spreads.

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A time spread transaction is executed by establishing a long gas position at one point in time and establishing an equal short gas position at a different point in time. Time spread transactions allow us to lock in a margin supported by the injection, withdrawal, and

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storage capacity of our natural gas storage assets. We may execute basis spread transactions to mitigate the risk of sale and purchase price differentials across our system. A basis spread transaction allows us to lock in a margin on our physical purchases and sales of gas, including injections and withdrawals from storage. We typically use swaps to execute these transactions, which are not designated as hedging instruments and are recorded at fair value with changes in fair value recorded in the current period condensed consolidated statements of operations. While gas held in our storage locations is recorded at the lower of average cost or market, the derivative instruments that are used to manage our storage facilities are recorded at fair value and any changes in fair value are currently recorded in our condensed consolidated statements of operations. Even though we may have economically hedged our exposure and locked in a future margin, the use of lower-of-cost-or-market accounting for our physical inventory and the use of mark-to-market accounting for our derivative instruments may subject our earnings to market volatility.

Commodity Cash Flow Hedges On March 30, 2012, we acquired the remaining 66.67% interest in Southeast Texas, and commodity derivative instruments related to the Southeast Texas storage business.

During 2011, Southeast Texas commenced an expansion project to build an additional storage cavern. Upon completion of the expansion project, Southeast Texas will be required to purchase a significant amount of base gas to bring the storage cavern to operation. To mitigate risk associated with this forecasted purchase of natural gas, Southeast Texas executed a series of derivative financial instruments, which have been designated as cash flow hedges. These cash flow hedges were in a loss position of \$3.5 million as of March 31, 2012 and will fluctuate in value through the term of construction. Any effective changes in fair value of these derivative instruments will be deferred in AOCI until the underlying purchase of inventory occurs. While the cash paid or received upon settlement of these hedges will economically offset the cash required to purchase the base gas, following completion of the additional storage cavern, any deferred gain or loss at the time of the purchase will remain in AOCI until the cavern is emptied and the base gas is sold.

In order for storage facilities to remain operational, a minimum level of base gas must be maintained in each storage cavern, which is capitalized on our condensed consolidated balance sheets as a component of property, plant and equipment, net. To mitigate the risk associated with the forecasted re-purchase of base gas, in 2008 we executed a series of derivative financial instruments, which were designated as cash flow hedges. The cash paid upon settlement of these hedges economically offsets the cash paid to purchase the base gas. As a result, a deferred loss of \$2.7 million was recognized and will remain in AOCI until such time that our cavern is emptied and the base gas is sold.

Interest Rate Risk

We mitigate a portion of our interest rate risk with interest rate swaps that reduce our exposure to market rate fluctuations by converting variable interest rates on our existing debt to fixed interest rates. The interest rate swap agreements convert the interest rate associated with the indebtedness outstanding under our revolving credit facility to a fixed-rate obligation, thereby reducing the exposure to market rate fluctuations.

At December 31, 2011, we had interest rate swap agreements totaling \$450.0 million, of which we had designated \$425.0 million as cash flow hedges and accounted for the remaining \$25.0 million under the mark-to-market method of accounting. In March 2012, we paid down a portion of the revolving credit facility and, as a result, we discontinued cash flow hedge accounting on \$225.0 million of our interest rate swap agreements.

At March 31, 2012, we had interest rate swap agreements totaling \$450.0 million, of which we have designated \$200.0 million as cash flow hedges and account for the remaining \$250.0 million under the mark-to-market method of accounting. \$450.0 million of these agreements extend through June 2012, with \$150.0 million extending through June 2014. Based on our current operations we believe our interest rate swap agreements mitigate our interest rate risk associated with our variable-rate debt.

Effectiveness of our interest rate swap agreements designated as cash flow hedges 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 consolidated balance sheets and are reclassified into earnings as the hedged transactions impact earnings. The effect that these swaps have on our 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

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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.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

At March 31, 2012, \$275.0 million of the interest rate swap agreements reprice prospectively approximately every 90 days and the remaining \$175.0 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 2.94% to 5.19%, and receive interest payments based on the three-month and one-month LIBOR.

On March 8, 2012, we settled \$195.0 million of our forward-starting interest rate swap agreements for \$6.6 million. The net deferred losses of \$5.1 million in AOCL, as of the settlement date, will be amortized into interest expense associated with our long-term debt offering through 2022.

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 we or DCP Midstream, LLC were to be downgraded below investment grade by at least one of the major credit rating agencies, certain of our ISDA counterparties 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 March 31, 2012, 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 March 31, 2012, we had \$59.4 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 March 31, 2012, if a credit-risk related event were to occur we may be required to post additional collateral. Although our commodity derivative contracts that contain credit-risk related contingent features were in a net liability position as of March 31, 2012, 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 \$53.5 million.

As of March 31, 2012, we had \$11.6 million of individual interest rate swap instruments that were in a net liability position and were 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 have the right to request that we net settle the instrument in the form of cash.

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Discovery Producer Services LLC, our unconsolidated affiliate, entered into agreements with a pipe vendor denominated in a foreign currency in connection with the planned expansion for the natural gas gathering pipeline system in the deepwater Gulf of Mexico, the Keathley Canyon Connector. Discovery entered into certain foreign currency derivative contracts to mitigate a portion of the foreign currency exchange risks which were designated as cash flow hedges. As these hedges are owned by Discovery, an unconsolidated affiliate, we include the impact to AOCI on our consolidated balance sheet.

Collateral

As of March 31, 2012, we had a contingent letter of credit facility for up to \$10.0 million, on which we have no letters of credit issued. DCP Midstream, LLC had issued and outstanding parental guarantees totaling \$70.0 million in favor of certain counterparties to our commodity derivative instruments. This contingent letter of credit facility and parental guarantees reduce the amount of cash we may be required to post as collateral. As of March 31, 2012, we had no cash collateral posted with counterparties to our commodity derivative instruments.

Summarized Derivative Information

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

	March 31, 2012	December 31, 2011
	(Millions)	
Commodity cash flow hedges:		
Net deferred losses in AOCI	\$ (6.2)	\$ (1.8)
Interest rate cash flow hedges:		
Net deferred losses in AOCI	(13.9)	(19.4)
Foreign currency cash flow hedges (a):		
Net deferred losses in AOCI	0.9	
Total AOCI	\$ (19.2)	\$ (21.2)

(a) Relates to Discovery, our unconsolidated affiliate.

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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	March 31, 2012	December 31, 2011	Balance Sheet Line Item	March 31, 2012	December 31, 2011
	(Millions)			(Millions)	
Derivative Assets Designated as Hedging Instruments:			Derivative Liabilities Designated as Hedging Instruments:		
Commodity derivatives:			Commodity derivatives:		
Unrealized gains on derivative instruments current	\$	\$	Unrealized losses on derivative instruments current	\$	\$
Unrealized gains on derivative instruments long-term			Unrealized losses on derivative instruments long-term	(3.5)	(2.6)
	\$	\$		\$ (3.5)	\$ (2.6)
Interest rate derivatives:			Interest rate derivatives:		
Unrealized gains on derivative instruments current	\$	\$	Unrealized losses on derivative instruments current	\$ (4.6)	\$ (15.7)
Unrealized gains on derivative instruments long-term			Unrealized losses on derivative instruments long-term	(4.3)	(5.0)
	\$	\$		\$ (8.9)	\$ (20.7)
Derivative Assets Not Designated as Hedging Instruments:			Derivative Liabilities Not Designated as Hedging Instruments:		
Commodity derivatives:			Commodity derivatives:		
Unrealized gains on derivative instruments current	\$ 38.2	\$ 41.2	Unrealized losses on derivative instruments current	\$ (45.3)	\$ (43.8)
Unrealized gains on derivative instruments long-term	31.2	6.4	Unrealized losses on derivative instruments long-term	(28.7)	(25.2)
	\$ 69.4	\$ 47.6		\$ (74.0)	\$ (69.0)
Interest rate derivatives:			Interest rate derivatives:		
Unrealized gains on derivative instruments current	\$	\$	Unrealized losses on derivative instruments current	\$ (2.7)	\$ (0.4)
Unrealized gains on derivative instruments long-term			Unrealized losses on derivative instruments long-term		
	\$	\$		\$ (2.7)	\$ (0.4)

Table of Contents**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		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 (Millions)
	2012		2011		2012		2011
	(Millions)		(Millions)		(Millions)		(Millions)
Interest rate derivatives	\$ 0.2	\$ (0.9)	\$ (5.3)	\$ (5.2)(a)	\$ (2.1)	\$ (a)(e)	\$ (5.7)
Commodity derivatives	\$ (0.8)	\$	\$	\$ (0.1)(b)	\$	\$ (b)(c)	\$
Foreign currency derivatives (d)	\$ 0.9	\$	\$	\$	\$	\$	\$

- (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 March 31, 2012 and 2011, 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.
(d) Relates to Discovery, our unconsolidated affiliate.
(e) For the three months ended March 31, 2012, \$0.6 million of derivative 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.

Changes in value of derivative instruments, for which the hedge method of accounting has not been elected from one period to the next, are recorded in the condensed consolidated statements of operations. The following summarizes these amounts and the location within the condensed consolidated statements of operations that such amounts are reflected:

Commodity Derivatives: Statements of Operations Line Item	Three Months Ended March 31, 2012 2011 (Millions)	
	Third party:	
Realized	\$ 16.0	\$ (6.8)
Unrealized	(25.0)	(32.3)
Losses from commodity derivative activity, net	\$ (9.0)	\$ (39.1)
Affiliates:		
Realized	\$ 1.3	\$ 1.5
Unrealized	2.4	(2.6)
Gains (losses) from commodity derivative activity, net affiliates	\$ 3.7	\$ (1.1)

Interest Rate Derivatives: Statements of Operations Line Item	Three Months Ended March 31,	
	2012	2011
	(Millions)	
Third party:		
Realized	\$ (2.9)	\$ (1.0)
Unrealized	2.8	\$ 1.6
Interest (expense) gain	\$ (0.1)	\$ 0.6

We do not have any derivative financial instruments that qualify as a hedge of a net investment.

The following tables represent, by commodity type, our net long or short positions that are expected to partially or entirely settle in each respective year. To the extent that we have long dated derivative positions that span multiple calendar years, the contract will appear in more than one line item in the tables below.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Year of Expiration	March 31, 2012			
	Crude Oil Net Long (Short) Position (Bbls)	Natural Gas Net Long (Short) Position (MMBtu)	Natural Gas Liquids Net Long (Short) Position (Bbls)	Natural Gas Basis Swaps Net Long (Short) position (Mmbtu)
2012	(576,678)	(14,406,500)	(1,615,424)	6,962,500
2013	(938,032)	135,000	(655,975)	6,472,500
2014	(547,500)	(365,000)	(629,625)	(900,000)
2015	(365,000)		(155,250)	
2016	(183,000)			

Year of Expiration	March 31, 2011			
	Crude Oil Net Long (Short) Position (Bbls)	Natural Gas Net Long (Short) Position (MMBtu)	Natural Gas Liquids Net Long (Short) Position (Bbls)	Natural Gas Basis Swaps Net Long (Short) position (Mmbtu)
2011	(442,505)	(9,132,500)	(716,303)	(325,000)
2012	(1,038,762)	(7,686,000)		7,150,000
2013	(948,365)	(365,000)		
2014	(547,500)	(365,000)		
2015	(365,000)			
2016	(183,000)			

We periodically enter into interest rate swap agreements to mitigate a portion of our floating rate interest exposure. As of March 31, 2012, we have swaps with a notional value between \$25.0 million and \$80.0 million, which, in aggregate, exchange up to \$450.0 million of our floating rate obligation to a fixed rate obligation through June 2012, with \$150.0 million extending through June 2014.

12. Partnership Equity and Distributions

General Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our Available Cash, as defined below, to unitholders of record on the applicable record date, as determined by our general partner.

In March 2012, we issued 5,148,500 common limited partner units at \$47.42 per unit. We received proceeds of \$234.2 million, net of offering costs.

In March 2012, we issued 1,000,417 common limited partner units to DCP Midstream, LLC as partial consideration for the remaining 66.67% interest in Southeast Texas.

In February 2012, we issued 30,701 common limited partner units under our 2005 Long-Term Incentive Plan, or 2005 LTIP, to employees as compensation for their service.

In January 2012, we issued 727,520 common limited partner units to DCP Midstream, LLC as partial consideration for the remaining 49.9% interest in East Texas.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On August 17, 2011, we entered into an equity distribution agreement with Citigroup Global Markets Inc., or Citi. The agreement provides for the offer and sale from time to time through Citi, our sales agent, common units having an aggregate offering amount of up to \$150.0 million. During the three months ended March 31, 2012, there were no issuances pursuant to this agreement. During the year ended December 31, 2011, we issued 761,285 of our common units pursuant to this equity distribution agreement. We received proceeds of \$30.2 million from the issuance of these common units, net of commissions and offering costs of \$1.2 million, which were used to finance growth opportunities.

Definition of Available Cash Available Cash, for any quarter, consists of all cash and cash equivalents on hand at the end of that quarter:

less the amount of cash reserves established by the general partner to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; and

provide funds for distributions to the unitholders and to our general partner for any one or more of the next four quarters;

plus, if our general partner so determines, all or a portion of cash and cash equivalents on hand on the date of determination of Available Cash for the quarter.

General Partner Interest and Incentive Distribution Rights The general partner is entitled to a percentage of all quarterly distributions equal to its general partner interest of approximately 1% and limited partner interest of 1% as of March 31, 2012. The general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest.

The incentive distribution rights held by the general partner entitle it to receive an increasing share of Available Cash when pre-defined distribution targets are achieved. Currently, our distribution to our general partner related to its incentive distribution rights is at the highest level. The general partner's incentive distribution rights were not reduced as a result of our common limited partner unit issuances, and will not be reduced if we issue additional units in the future and the general partner does not contribute a proportionate amount of capital to us to maintain its current general partner interest. Please read the *Distributions of Available Cash after the Subordination Period* sections below for more details about the distribution targets and their impact on the general partner's incentive distribution rights.

Distributions of Available Cash after the Subordination Period Our partnership agreement, after adjustment for the general partner's relative ownership level, requires that we make distributions of Available Cash from operating surplus for any quarter after the subordination period, which ended in February 2009, in the following manner:

first, to all unitholders and the general partner, in accordance with their pro rata interest, until each unitholder receives a total of \$0.4025 per unit for that quarter;

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second, 13% to the general partner, plus the general partner's pro rata interest, and the remainder to all unitholders pro rata until each unitholder receives a total of \$0.4375 per unit for that quarter;

third, 23% to the general partner, plus the general partner's pro rata interest, and the remainder to all unitholders pro rata until each unitholder receives a total of \$0.525 per unit for that quarter; and

thereafter, 48% to the general partner, plus the general partner's pro rata interest, and the remainder to all unitholders.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents our cash distributions paid in 2012 and 2011:

Payment Date	Per Unit Distribution	Total Cash Distribution (Millions)
February 14, 2012	\$ 0.6500	\$ 36.7
November 14, 2011	\$ 0.6400	\$ 34.9
August 12, 2011	\$ 0.6325	\$ 34.0
May 13, 2011	\$ 0.6250	\$ 33.4
February 14, 2011	\$ 0.6175	\$ 30.0

13. Equity-Based Compensation

On November 28, 2005, the board of directors of our General Partner adopted a Long-Term Incentive Plan, or the 2005 LTIP, for employees, consultants and directors of our General Partner and its affiliates who perform services for us. The 2005 LTIP provides for the grant of limited partner units, or LPU, phantom units, unit options and substitute awards, and, with respect to unit options and phantom units, the grant of dividend equivalent rights, or DERs. Subject to adjustment for certain events, an aggregate of 850,000 LPUs may be issued and delivered pursuant to awards under the 2005 LTIP. Awards that are canceled or forfeited, or are withheld to satisfy the General Partner's tax withholding obligations, are available for delivery pursuant to other awards.

On February 15, 2012, the board of directors of our General Partner adopted a 2012 LTIP, for employees, consultants and directors of our General Partner and its affiliates who perform services for us. The 2012 LTIP provides for the grant of phantom units and the grant of DERs.

The 2005 and 2012 LTIPs are administered by the compensation committee of the General Partner's board of directors. All awards are subject to cliff vesting.

Prior to February 18, 2011, substantially all equity-based awards under the 2005 LTIP were accounted for as liability awards. Effective February 18, 2011, the Modification Date, we have the intent and ability to settle certain awards within our control in units and therefore modified the accounting for these awards. We now classify them as equity awards based on their re-measured fair value. The fair value was determined based on the closing price of our common units on the Modification Date. Such modification resulted in a reclassification of \$1.9 million from share-based compensation liability to additional paid-in capital on the Modification Date. Compensation expense on unvested equity awards as of the Modification Date will be recognized ratably over each remaining vesting period.

We will continue to account for other awards subject to settlement in cash as liability awards. Compensation expense on these awards is recognized ratably over each vesting period, and will be re-measured each reporting period for all awards outstanding until the units are settled. The fair value of all liability awards is determined based on the closing price of our common units at each measurement date.

The reclassification of the affected awards does not impact our accounting for dividend equivalent rights as these instruments will continue to be settled in cash and therefore retain their share-based compensation liability classification.

14. Income Taxes

We are structured as a limited partnership, which is a pass-through entity for federal income tax purposes.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****15. Net Income or Loss per Limited Partner Unit**

Basic net income per limited partner unit is computed based on the weighted average number of units outstanding during the period. Diluted net income per limited partner unit is computed based on the weighted average number of units plus the effect of dilutive potential units outstanding during the period using the two-class method. Dilutive potential units include outstanding performance units, phantom units and restricted units. The dilutive effect of unit-based awards was 51,925 equivalent units and 35,998 equivalent units during the three months ended March 31, 2012 and March 31, 2011, respectively.

16. Commitments and Contingent Liabilities

Prospect During the fourth quarter of 2011, we received a claim for arbitration (the *Claim*) filed with the American Arbitration Association by Prospect Street Energy, LLC and Prospect Street Ventures I, LLC (together, the *Claimants*) against EE Group, LLC (*EE Group*) and a number of other parties that previously owned, directly or indirectly, our Marysville NGL storage facility (collectively, the *Respondents*). EE Group is our indirect subsidiary which we acquired in connection with our acquisition of Marysville Hydrocarbons Holdings, LLC (*MHH*) on December 30, 2010 (the *Acquisition*). The Claim involves actions taken and time periods prior to our ownership of EE Group and MHH, and includes several causes of action including claims of civil conspiracy, breach of fiduciary duty and fraud. We acquired a 90% interest in MHH from Dart Energy Corporation (*Dart*), a 5% interest in MHH from Prospect Street Energy, LLC and a 100% interest in EE Group, which owned the remaining 5% interest in MHH. The Claim seeks, from the Respondents collectively, alleged actual, punitive and treble damages and disgorgement of profits, as well as fees and costs. The purchase agreements for the Acquisition contain indemnification and other provisions that may provide some protection to us for any breach of the representations, warranties and covenants made by the sellers in the Acquisition. At this point, we cannot predict whether we will have any liability for the Claim. This proceeding is subject to the uncertainties inherent in any litigation, and the ultimate outcome of this matter may not be known for an extended period of time. We intend to vigorously defend this matter.

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

Insurance We renewed our insurance policies in May, June and July 2011 for the 2011-2012 insurance year. We contract with third party and affiliate insurers for: (1) automobile liability insurance for all owned, non-owned and hired vehicles; (2) general liability insurance; (3) excess liability insurance above the established primary limits for general liability and automobile liability insurance; and (4) property insurance, which covers replacement value of real and personal property and includes business interruption/extra expense. These renewals have not resulted in any material change to the premiums we are contracted to pay in the 2011-2012 insurance year compared with the 2010-2011 insurance year. We are jointly insured with DCP Midstream, LLC for directors and officers insurance covering our directors and officers for acts related to our business activities. All coverage is subject to certain limits and deductibles, the terms and conditions of which are common for companies that are of similar size to us and with similar types of operations.

Our insurance on Discovery for the 2011-2012 insurance year includes general and excess liability, onshore property damage, including named windstorm and business interruption, and offshore non-wind property and business interruption insurance. The availability of offshore named windstorm property and business interruption insurance has been significantly reduced over the past few years as a result of higher industry-wide damage claims. Additionally, the named windstorm property and business interruption insurance that is available comes at uneconomic premium levels, higher deductibles and lower coverage limits. As such, Discovery has elected to not purchase offshore named windstorm property and business interruption insurance coverage for the 2011-2012 insurance year.

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DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Environmental The operation of pipelines, plants and other facilities for gathering, transporting, processing, treating, or storing natural gas, NGLs and other products is subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As an owner or operator of these facilities, we must comply with United States laws and regulations at the federal, state and local levels that relate to air and water quality, hazardous and solid waste management and disposal, and other environmental matters. The cost of planning, designing, constructing and operating pipelines, plants, and other facilities must incorporate compliance with environmental laws and regulations and safety standards. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and potentially criminal enforcement measures, including citizen suits, which can include the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of injunctions or restrictions on operation. Management believes that, based on currently known information, compliance with these laws and regulations will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

During the first quarter of 2011, we discovered excess emissions at our East Texas gas plant. We met with the Texas Commission on Environmental Quality, or TCEQ, in April 2011 to discuss this matter and included these issues in Title V reports we submitted to the State. In August 2011, the TCEQ conducted a standard inspection at the East Texas gas plant to evaluate compliance with applicable air quality requirements. On August 31, 2011, the TCEQ issued us a Notice of Violation and a Notice of Enforcement citing a number of alleged violations of terms and requirements of the facility air permit. We responded to the Notice of Violation on September 28, 2011, including the implemented measures to ensure the facility is in compliance with the relevant air permit terms and conditions. We responded to the Notice of Enforcement on October 14, 2011, including a description of the measures that have been implemented, and will be implemented at the facility to ensure compliance with the relevant air permit terms and conditions. The TCEQ assessed a penalty of \$0.6 million to resolve this matter, a portion which was paid during the first quarter of 2012. We were only responsible for 50.1% of this penalty and DCP Midstream, LLC was responsible for the remainder of the penalty under the terms of our acquisition of a 49.9% interest in East Texas from DCP Midstream, LLC on January 3, 2012.

Indemnification DCP Midstream, LLC has indemnified us for certain potential environmental claims, losses and expenses associated with the operation of the assets of certain of our predecessors.

17. Business Segments

Our operations are located in the United States and are organized into three reporting segments: (1) Natural Gas Services; (2) NGL Logistics; and (3) Wholesale Propane Logistics.

Natural Gas Services Our Natural Gas Services segment provides services that include gathering, compressing, treating, processing, transporting and storing natural gas. The segment consists of our Northern Louisiana system, our Southern Oklahoma system, our Wyoming system, our Michigan system, our Southeast Texas system, our East Texas system, our 75% interest in the Colorado system, and our 40% limited liability company interest in Discovery.

NGL Logistics Our NGL Logistics segment provides services that include transportation, storage and fractionation of NGLs. The segment consists of the Seabreeze and Wilbreeze intrastate NGL pipelines, the Wattenberg and Black Lake interstate NGL pipelines, the NGL storage facility in Michigan and the DJ Basin NGL Fractionators in Colorado.

Wholesale Propane Logistics Our Wholesale Propane Logistics segment provides services that include the receipt of propane by pipeline, rail or ship to our terminals that deliver the product to retail distributors. The segment consists of six owned rail terminals, one owned marine import terminal, one leased marine terminal, one pipeline terminal and access to several open-access pipeline terminals.

These segments are monitored separately by management for performance against our internal forecast and are consistent with internal financial reporting. These segments have been identified based on the differing products and services, regulatory environment and the expertise required for these operations. Gross margin is a performance measure utilized by management to monitor the business of each segment.

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following tables set forth our segment information:

Three Months Ended March 31, 2012

	Natural Gas Services (e)	NGL Logistics	Wholesale Propane Logistics	Other	Eliminations (f)	Total
	(Millions)					
Total operating revenue	\$ 305.7	\$ 15.9	\$ 204.0	\$	\$	\$ 525.6
Total purchases	(248.4)		(182.8)			(431.2)
Gross margin (a)	\$ 57.3	\$ 15.9	\$ 21.2	\$	\$	\$ 94.4
Operating and maintenance expense	(18.3)	(4.2)	(3.8)			(26.3)
Depreciation and amortization expense	(22.3)	(2.2)	(0.7)			(25.2)
General and administrative expense				(11.9)		(11.9)
Other income		0.1				0.1
Earnings from unconsolidated affiliates	5.7					5.7
Interest expense				(12.6)		(12.6)
Income tax expense (b)				(0.2)		(0.2)
Net income (loss)	22.4	9.6	16.7	(24.7)		24.0
Net income attributable to noncontrolling interests	(0.7)					(0.7)
Net income (loss) attributable to partners	\$ 21.7	\$ 9.6	\$ 16.7	\$ (24.7)	\$	\$ 23.3
Non-cash derivative mark-to-market (c)	\$ (23.0)	\$	\$ 0.4	\$ (1.2)	\$	\$ (23.8)
Capital expenditures	\$ 51.3	\$ 1.5	\$ 0.6	\$	\$	\$ 53.4
Acquisition expenditures	\$ 311.4	\$	\$	\$	\$	\$ 311.4

Three Months Ended March 31, 2011

	Natural Gas Services (e)	NGL Logistics	Wholesale Propane Logistics	Other	Eliminations (f)	Total
	(Millions)					
Total operating revenue	\$ 373.3	\$ 15.0	\$ 247.8	\$	\$ (2.2)	\$ 633.9
Total purchases	(333.6)	(4.7)	(226.0)		2.2	(562.1)
Gross margin (a)	\$ 39.7	\$ 10.3	\$ 21.8	\$	\$	\$ 71.8
Operating and maintenance expense	(21.0)	(4.0)	(3.6)			(28.6)

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Depreciation and amortization expense	(21.9)	(1.7)	(0.7)		(24.3)
General and administrative expense				(11.7)	(11.7)
Other income		0.1			0.1
Earnings from unconsolidated affiliates	4.5				4.5
Interest expense				(8.0)	(8.0)
Income tax expense (b)				(0.3)	(0.3)
Net income (loss)	1.3	4.7	17.5	(20.0)	3.5
Net income attributable to noncontrolling interests	(3.5)				(3.5)
Net (loss) income attributable to partners	\$ (2.2)	\$ 4.7	\$ 17.5	\$ (20.0)	\$
Non-cash derivative mark-to-market (c)	\$ (34.6)	\$	\$ (0.3)	\$ (0.2)	\$ (35.1)
Capital expenditures	\$ 28.2	\$ 4.3	\$ 0.6	\$	\$ 33.1
Acquisition expenditures	\$ 121.8	\$ 29.6	\$	\$	\$ 151.4

Table of Contents**DCP MIDSTREAM PARTNERS, LP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	March 31, 2012	December 31, 2011
	(Millions)	
Segment long-term assets:		
Natural Gas Services (e)	\$ 1,620.5	\$ 1,555.4
NGL Logistics	260.8	250.1
Wholesale Propane Logistics	103.9	104.2
Other (d)	12.3	14.0
Total long-term assets	1,997.5	1,923.7
Current assets	291.4	353.7
Total assets	\$ 2,288.9	\$ 2,277.4

- (a) Gross margin consists of total operating revenues, including commodity derivative activity, less purchases of natural gas, propane, NGLs and condensate. Gross margin is viewed as a non-GAAP measure under the rules of the SEC, but is included as a supplemental disclosure because it is a primary performance measure used by management as it represents the results of product sales versus product purchases. As an indicator of our operating performance, gross margin should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP. Our gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate gross margin in the same manner.
- (b) For the three months ended March 31, 2011, income tax expense relates primarily to the Texas margin tax and the Michigan business tax. The Michigan business tax was repealed in 2012; accordingly, income tax expense for the three months ended March 31, 2012 relates primarily to the Texas margin tax.
- (c) Non-cash derivative mark-to-market is included in segment gross margin, along with cash settlements for our derivative contracts.
- (d) Other long-term assets not allocable to segments consist of unrealized gains on derivative instruments, corporate leasehold improvements and other long-term assets.
- (e) The segment information for the three months ended March 31, 2012 and 2011, and as of December 31, 2011, include the results of Southeast Texas, a transfer of net assets between entities under common control that was accounted for as if the transfer occurred at the beginning of the period, and prior years are retrospectively adjusted to furnish comparative information similar to the pooling method.
- (f) Represents intersegment revenues consisting of sales of NGLs by Marysville in our NGL Logistics business to our Wholesale Propane business.

18. Supplemental Cash Flow Information

	Three Months Ended March 31, 2012 2011	
	(Millions)	
Cash paid for interest:		
Cash paid for interest, net of amounts capitalized	\$ 1.5	\$ 1.2
Non-cash investing and financing activities:		
Property, plant and equipment acquired with accounts payable	\$ 23.7	\$ 11.7
Other non-cash additions of property, plant and equipment	\$ 5.8	\$ 0.1
Accounts payable related to equity issuance costs	\$ 0.2	\$ 0.1

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Non-cash change in parent advances	\$	\$ 4.3
Non-cash distributions to DCP Midstream, LLC	\$	\$ 2.6

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The following condensed consolidating financial information presents the results of operations, financial position and cash flows of DCP Midstream Partners, LP, or parent guarantor, DCP Midstream Operating LP, or subsidiary issuer, which is a 100% owned subsidiary, and non-guarantor subsidiaries, as well as the consolidating adjustments necessary to present DCP Midstream Partners, LP's results on a consolidated basis. In conjunction with the universal shelf registration statement on Form S-3 filed with the SEC on May 26, 2010, the parent guarantor has agreed to fully and unconditionally guarantee securities of the subsidiary issuer. For the purpose of the following financial information, investments in subsidiaries are reflected in accordance with the equity method of accounting. The financial information may not necessarily be indicative of results of operations, cash flows, or financial position had the subsidiaries operated as independent entities.

**Condensed Consolidating Balance Sheets
March 31, 2012**

Parent Guarantor	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
(Millions)				

ASSETS	
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