DCP Midstream Partners, LP
Form 10-Q
August 09, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: June 30, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-32678

DCP MIDSTREAM PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**03-0567133**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
370 17th Street, Suite 2775	
Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of August 3, 2007, there were outstanding 14,183,639 common limited partner units and 7,142,857 subordinated units.

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DCP MIDSTREAM PARTNERS, LP

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2007

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GLOSSARY OF TERMS

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

Bbls	barrels
Bbls/d	barrels per day
Frac spread	price differences, measured in energy units, between equivalent amounts of natural gas and NGLs
Fractionation	the process by which natural gas liquids are separated into individual components
MMBtu	million British thermal units, a measurement of energy
MMBtu/d	million British thermal units per day, a measurement of energy
MMcf/d	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, 2006, as well as the following risks and uncertainties:

- the level and success of natural gas drilling around our assets, and our ability to connect supplies to our gathering and processing systems in light of competition;
- our ability to grow through acquisitions, contributions from affiliates, or organic growth projects, and the successful integration and future performance of such assets;
- our ability to access the debt and equity markets, which will depend on general market conditions, interest rates and our ability to effectively hedge such rates with derivative financial instruments to limit a portion of the adverse effects of potential changes in interest rates, and the credit ratings for our debt obligations;
- the extent of changes in commodity prices, our ability to effectively mitigate a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;
- our ability to purchase propane from our principal suppliers for our wholesale propane logistics business;
- our ability to construct facilities in a timely fashion, which is partially dependent on obtaining required building, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for supplies;
- the creditworthiness of counterparties to our transactions;
- weather and other natural phenomena, including their potential impact on demand for the commodities we sell and our and third-party-owned infrastructure;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment or the increased regulation of our industry;

- industry changes, including the impact of consolidations, alternative energy sources, technological advances and changes in competition;

- the amount of collateral required to be posted from time to time in our transactions; and

- general economic, market and business conditions.

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

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2007	December 31, 2006
	($ in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55.0	$ 46.2
Short-term investments		0.6
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $0.6 million and $0.3 million, respectively	40.2	43.4
Affiliates	30.4	34.8
Inventories	30.3	30.1
Unrealized gains on non-trading derivative and hedging instruments	3.2	4.2
Other	0.2	0.3
Total current assets	159.3	159.6
Restricted investments		102.0
Property, plant and equipment, net	370.7	194.7
Goodwill	29.3	29.3
Intangible assets, net	15.0	2.8
Equity method investments	6.4	5.9
Unrealized gains on non-trading derivative and hedging instruments	5.0	6.5
Other long-term assets	1.3	0.8
Total assets	$ 587.0	$ 501.6
LIABILITIES AND PARTNERS EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 70.7	$ 66.9
Affiliates	21.6	50.4
Unrealized losses on non-trading derivative and hedging instruments	4.4	0.7
Accrued interest payable	0.4	1.1
Other	7.3	7.4
Total current liabilities	104.4	126.5
Long-term debt	249.0	268.0
Unrealized losses on non-trading derivative and hedging instruments	10.3	2.7
Other long-term liabilities	2.3	1.0
Total liabilities	366.0	398.2

Commitments and contingent liabilities		
Partners equity:		
Common unitholders (13,362,923 and 10,357,143 units issued and outstanding, respectively)	349.9	223.4
Class C unitholders (200,312 units issued and outstanding at both periods)	(20.7)	(20.7)
Subordinated unitholders (7,142,857 convertible units issued and outstanding at both periods)	(102.5)	(101.6)
General partner interest	(5.0)	(5.0)
Accumulated other comprehensive (loss) income	(0.5)	7.3
Total	221.2	103.4
Less treasury units, at cost (4,000 and 0, respectively)	(0.2)	
Total partners equity	221.0	103.4
Total liabilities and partners equity	$ 587.0	$ 501.6

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	($ in millions, except per unit amounts)			
Operating revenues:				
Sales of natural gas, propane, NGLs and condensate	$ 123.6	$ 107.5	$ 301.9	$ 291.6
Sales of natural gas, propane, NGLs and condensate to affiliates	62.0	46.1	116.6	121.0
Transportation and processing services	3.6	3.6	6.9	7.4
Transportation and processing services to affiliates	3.9	3.3	7.9	6.0
Losses from non-trading derivative activity, net	(5.8)		(5.8)	
Losses from non-trading derivative activity affiliates, net	(0.4)	(0.4)	(0.5)	(0.5)
Total operating revenues	186.9	160.1	427.0	425.5
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	129.5	113.8	292.6	324.3
Purchases of natural gas, propane and NGLs from affiliates	35.7	24.2	83.5	55.6
Operating and maintenance expense	6.3	5.1	12.9	11.5
Depreciation and amortization expense	4.5	3.1	7.9	6.4
General and administrative expense	4.5	2.7	7.0	5.5
General and administrative expense affiliates	2.4	1.9	4.7	3.8
Total operating costs and expenses	182.9	150.8	408.6	407.1
Operating income	4.0	9.3	18.4	18.4
Interest income	0.8	1.5	2.5	3.0
Interest expense	(4.6)	(2.6)	(8.4)	(5.2)
Earnings from equity method investments	0.3	0.1	0.5	0.1
Net income	$ 0.5	$ 8.3	$ 13.0	$ 16.3
Less:				
Net loss (income) attributable to predecessor operations		0.5		(2.1)
General partner interest in net income	(0.3)	(0.2)	(0.6)	(0.3)
Net income allocable to limited partners	$ 0.2	$ 8.6	$ 12.4	$ 13.9
Net income per limited partner unit basic and diluted	$ 0.01	$ 0.47	$ 0.60	$ 0.79
Weighted-average limited partner units outstanding basic and diluted	18.0	17.5	17.8	17.5

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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	($ in millions)			
Net income	$ 0.5	$ 8.3	$ 13.0	$ 16.3
Other comprehensive loss:				
Reclassification of cash flow hedge into earnings	(0.7)	(0.5)	(2.1)	(0.7)
Net unrealized losses on cash flow hedges	(0.4)	(2.4)	(5.7)	(2.8)
Total other comprehensive loss	(1.1)	(2.9)	(7.8)	(3.5)
Total comprehensive (loss) income	$ (0.6)	$ 5.4	$ 5.2	$ 12.8

See accompanying notes to condensed consolidated financial statements.

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DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	($ in millions)	
OPERATING ACTIVITIES:		
Net income	$ 13.0	$ 16.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	7.9	6.4
Undistributed earnings from equity method investments	(0.5)	(0.1)
Other, net	(0.4)	(1.4)
Change in operating assets and liabilities which provided (used) cash, net of effects from acquisitions:		
Accounts receivable	9.8	73.9
Inventories	(0.2)	12.4
Net unrealized losses on non-trading derivative and hedging instruments	6.2	0.9
Accounts payable	(14.2)	(83.0)
Accrued interest	(0.7)	(0.2)
Other current assets and liabilities	(0.2)	1.7
Other long-term assets and liabilities	0.6	
Net cash provided by operating activities	21.3	26.9
INVESTING ACTIVITIES:		
Capital expenditures	(7.6)	(12.1)
Acquisition of assets	(191.3)	
Payment of earnest deposit	(9.0)	
Refund of earnest deposit	9.0	
Proceeds from sales of assets	0.1	0.1
Purchases of available-for-sale securities	(6,427.7)	(4,249.8)
Proceeds from sales of available-for-sale securities	6,531.1	4,248.8
Net cash used in investing activities	(95.4)	(13.0)
FINANCING ACTIVITIES:		
Borrowings of debt	188.0	
Repayments of debt	(207.0)	(20.1)
Proceeds from issuance of common units, net of offering costs	128.5	
Payment of deferred financing costs	(0.5)	
Purchase of treasury units	(0.2)	
Excess purchase price over acquired assets	(9.9)	
Net change in advances from DCP Midstream, LLC		(10.9)
Distributions to unitholders	(16.4)	(8.0)
Contributions from unitholders	0.4	3.2
Net cash provided by (used in) financing activities	82.9	(35.8)
Net change in cash and cash equivalents	8.8	(21.9)
Cash and cash equivalents, beginning of period	46.2	42.2

Cash and cash equivalents, end of period	$	55.0	$	20.3
Supplementary disclosure of cash flow information:				
Cash paid for interest, net of capitalized interest	$	10.0	$	5.4

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Basis of Presentation

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

We are a Delaware master limited partnership that was formed in August 2005. We completed our initial public offering on December 7, 2005. Our partnership includes: our Northern Louisiana system assets; our Southern Oklahoma system (which was acquired in May 2007); our NGL transportation pipelines; and our wholesale propane logistics business (which was acquired in November 2006).

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, which is wholly-owned by DCP Midstream, LLC. DCP Midstream, LLC is owned 50% by Spectra Energy Corp, or Spectra Energy, and 50% by ConocoPhillips.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We refer to the assets, liabilities and operations of our wholesale propane logistics business prior to our acquisition from DCP Midstream, LLC in November 2006, as our predecessor. The condensed consolidated financial statements of our predecessor have been prepared from the separate records maintained by DCP Midstream, LLC and may not necessarily be indicative of the conditions that would have existed or the results of operations if our predecessor had been operated as an unaffiliated entity. All significant 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 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. 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 Annual Report on Form 10-K for the year ended December 31, 2006.

2. Summary of Significant Accounting Policies

Use of Estimates 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.

Restricted Investments Restricted investments consisted of $102.0 million in investments in commercial paper and various other high-grade debt securities as of December 31, 2006. These investments were used as collateral to secure the term loan portion of our credit facility and to finance gathering and compression asset acquisitions. There were no restricted investments as of June 30, 2007.

Accounting for Risk Management and Hedging Activities and Financial Instruments Effective July 1, 2007, we elected to discontinue using the hedge method of accounting for our commodity cash flow hedges. We will use the mark-to-market method of accounting for all commodity cash flow hedges beginning in July 2007. As a result, the remaining net loss of $2.0 million deferred in accumulated other comprehensive income, or AOCI, as of June 30, 2007 will be reclassified to sales of natural gas, propane, NGLs and condensate, through December 2011, as the hedged transactions impact earnings.

Revenue Recognition We generate the majority of our revenues from gathering, processing, compressing, transporting, and fractionating natural gas and NGLs, and from trading and marketing of natural gas and NGLs. We realize revenues either by selling the residue natural gas and NGLs, or by receiving fees from the producers.

We obtain access to commodities and provide our midstream services principally under contracts that contain a combination of one or more of the following arrangements:

Fee-based arrangements Under fee-based arrangements, we receive a fee or fees for one or more of the following services: gathering, compressing, treating, processing or transporting natural gas; and transporting NGLs. Our fee-based arrangements include natural gas purchase arrangements pursuant to which we purchase natural gas at the wellhead or other receipt points, at an index related price at the delivery point less a specified amount, generally the same as the transportation fees we would otherwise charge for transportation of natural gas from the wellhead location to the delivery point. The revenues we earn are directly related to the volume of natural gas or NGLs that flows through our systems and are not directly dependent on commodity prices. To the extent a sustained decline in commodity prices results in a decline in volumes, however, our revenues from these arrangements would be reduced.

Percentage-of-proceeds/index arrangements Under percentage-of-proceeds/index arrangements, we generally purchase natural gas from producers at the wellhead, or other receipt points, gather the wellhead natural gas through our gathering system, treat and process the natural gas, and then sell the resulting residue natural gas and NGLs based on index prices from published index market prices. We remit to the producers either an agreed-upon percentage of the actual proceeds that we receive from our sales of the residue natural gas and NGLs, or an agreed-upon percentage of the proceeds based on index related prices for the natural gas and the NGLs, regardless of the actual amount of the sales proceeds we receive. Certain of these arrangements may also result in our returning all or a portion of the residue natural gas and/or the NGLs to the producer, in lieu of returning sales proceeds. Our revenues under percentage-of-proceeds/index arrangements correlate directly with the price of natural gas and/or NGLs.

Propane sales arrangements Under propane sales arrangements, we generally purchase propane from natural gas processing plants and fractionation facilities, and crude oil refineries. We sell propane on a wholesale basis to retail propane distributors, who in turn resell to their retail customers. Our sales of propane are not contingent upon the resale of propane by propane distributors to their retail customers.

Our marketing of natural gas and NGLs consists of physical purchases and sales, as well as positions in derivative instruments.

We generally report revenues gross in the condensed consolidated statements of operations, as we typically act as the principal in these transactions, take custody to the product, and incur the risks and rewards of ownership. Effective April 1, 2006, any new or amended contracts for certain sales and purchases of inventory with the same counterparty, when entered into in contemplation of one another, are reported net as one transaction.

3. Recent Accounting Pronouncements

***Statement of Financial Accounting Standards, or SFAS, No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115*, or SFAS 159** In February 2007, the Financial Accounting Standards Board, or FASB, issued SFAS 159, which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item s fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. SFAS 159 is effective for us on January 1, 2008. We have not assessed the impact of SFAS 159 on our consolidated results of operations, cash flows or financial position.

***SFAS No. 157, Fair Value Measurements*, or SFAS 157** In September 2006, the FASB issued SFAS 157, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for more information about: (1) the extent to which companies measure assets and liabilities at fair value; (2) the information used to measure fair value; and (3) the effect that fair value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value to any new circumstances. SFAS 157 is effective for us on January 1, 2008. We have not assessed the impact of SFAS 157 on our consolidated results of operations, cash flows or financial position.

***FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement 109*, or FIN 48** In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 were effective for us on January 1, 2007, and the adoption of FIN 48 did not have a material impact on our consolidated results of operations, cash flows or financial position.

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4. Acquisitions

Gathering and Compression Assets

On July 1, 2007, we acquired a 25% limited liability company interest in DCP East Texas Holdings, LLC, a 40% limited liability company interest in Discovery Producer Services LLC and a derivative instrument from DCP Midstream, LLC for aggregate consideration consisting of $244.7 million in cash, the issuance of 620,404 common units valued at $27.0 million and the issuance of 12,661 general partner equivalent units valued at $0.6 million.

In May 2007, we agreed to acquire certain subsidiaries of Momentum Energy Group Inc., or MEG, from DCP Midstream, LLC for $165.0 million, subject to closing adjustments. This transaction is expected to close in the third quarter of 2007, but is contingent upon DCP Midstream, LLC closing their acquisition of the stock of MEG. On May 21, 2007, in connection with this acquisition, we entered into a common unit purchase agreement, which is contingent on the closing of the MEG acquisition, with certain institutional investors to sell 2,380,952 common limited partner units in a private placement at $42.00 per unit, or approximately $100.0 million in the aggregate. In connection with this common unit purchase agreement, we have a registration obligation that is contingent upon closing of the MEG acquisition.

In May 2007, we acquired certain gathering and compression assets located in Southern Oklahoma, as well as related commodity purchase contracts, from Anadarko Petroleum Corporation for approximately $181.1 million, subject to customary purchase price adjustments.

In April 2007, we acquired certain gathering and compression assets located in Northern Louisiana from Laser Gathering Company, LP for approximately $10.2 million, subject to customary purchase price adjustments.

The results of operations for these acquired assets have been included prospectively, from the dates of acquisition, as part of the Natural Gas Services segment.

Wholesale Propane Logistics Business

On November 1, 2006, we acquired our wholesale propane logistics business from DCP Midstream, LLC for aggregate consideration of approximately $82.9 million, which consisted of $77.3 million in cash ($9.9 million of which was paid in January 2007), and the issuance of 200,312 Class C units valued at approximately $5.6 million. Included in the aggregate consideration was $10.5 million of costs incurred through October 31, 2006, which were associated with the construction of a new pipeline terminal.

The transfer of assets between DCP Midstream, LLC and us represents a transfer of assets between entities under common control. Transfers of net assets or exchanges of shares between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retroactively adjusted to furnish comparative information similar to the pooling method.

The following tables present the impact on our unaudited condensed consolidated statement of operations, adjusted for the acquisition of our wholesale propane logistics business from DCP Midstream, LLC, for the three and six months ended June 30, 2006 ($ in millions):

Three Months Ended June 30, 2006

	DCP Midstream Partners, LP	Wholesale Propane Logistics Business	Combined DCP Midstream Partners, LP
Operating revenues:			
Sales of natural gas, propane, NGLs and condensate	$ 88.1	$ 65.5	$ 153.6
Transportation and other	6.9	(0.4)	6.5
Total operating revenues	95.0	65.1	160.1
Operating costs and expenses:			
Purchases of natural gas, propane and NGLs	75.7	62.3	138.0
Operating and maintenance expense	3.0	2.1	5.1

Depreciation and amortization expense	2.9	0.2	3.1
General and administrative expense	3.6	1.0	4.6
Total operating costs and expenses	85.2	65.6	150.8
Operating income	9.8	(0.5)	9.3
Interest expense, net	(1.1)		(1.1)
Earnings from equity method investments	0.1		0.1
Net income	$ 8.8	$ (0.5)	$ 8.3

Six Months Ended June 30, 2006

	DCP Midstream Partners, LP	Wholesale Propane Logistics Business	Combined DCP Midstream Partners, LP
Operating revenues:			
Sales of natural gas, propane, NGLs and condensate	$ 201.6	$ 211.0	$ 412.6
Transportation and other	13.4	(0.5)	12.9
Total operating revenues	215.0	210.5	425.5
Operating costs and expenses:			
Purchases of natural gas, propane and NGLs	177.8	202.1	379.9
Operating and maintenance expense	7.3	4.2	11.5
Depreciation and amortization expense	5.9	0.5	6.4
General and administrative expense	7.7	1.6	9.3
Total operating costs and expenses	198.7	208.4	407.1
Operating income	16.3	2.1	18.4
Interest expense, net	(2.2)		(2.2)
Earnings from equity method investments	0.1		0.1
Net income	$ 14.2	$ 2.1	$ 16.3

5. Agreements and Transactions with Affiliates
DCP Midstream, LLC

DCP Midstream, LLC provided centralized corporate functions on behalf of our predecessor operations, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, internal audit, taxes and engineering. The predecessor s share of those costs was allocated based on the predecessor s proportionate net investment (consisting of property, plant and equipment, net, equity method investments, and intangible assets, net) as compared to DCP Midstream, LLC s net investment. In management s estimation, the allocation methodologies used were reasonable and resulted in an allocation to the predecessors of their respective costs of doing business, which were borne by DCP Midstream, LLC.

Omnibus Agreement

We have entered into an omnibus agreement, as amended, or the Omnibus Agreement, with DCP Midstream, LLC. Under the Omnibus Agreement, we are required to reimburse DCP Midstream, LLC for salaries of operating personnel and employee benefits as well as capital expenditures, maintenance and repair costs, taxes and other direct costs incurred by DCP Midstream, LLC on our behalf. We also pay DCP Midstream, LLC an annual fee for centralized corporate functions performed by DCP Midstream, LLC on our behalf, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, internal audit, taxes and engineering. The Omnibus Agreement: (1) states that the annual fee of $4.8 million for the initial assets under the agreement was fixed at such amount for 2006, subject to annual increases in the Consumer Price Index, which increased to $5.0 million for 2007; (2) effective November 2006, includes an additional annual fee of $2.0 million related to the acquisition of our wholesale propane logistics business from DCP Midstream, LLC, subject to the same conditions noted above; and (3) effective May 2007, includes an additional annual fee of $0.2 million related to the Southern Oklahoma asset acquisition, subject to the same conditions noted above.

The Omnibus Agreement addresses the following matters:

our obligation to reimburse DCP Midstream, LLC for the payment of operating expenses, including salary and benefits of operating personnel, it incurs on our behalf in connection with our business and operations;

our obligation to reimburse DCP Midstream, LLC for providing us with general and administrative services with respect to our business and operations, which is $7.2 million in 2007, subject to an increase for 2008 based on increases in the Consumer Price Index and subject to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses with the concurrence of the special committee of the General Partner s board of directors;

- our obligation to reimburse DCP Midstream, LLC for insurance coverage expenses it incurs with respect to our business and operations and with respect to director and officer liability coverage;

- DCP Midstream, LLC s obligation to indemnify us for certain liabilities and our obligation to indemnify DCP Midstream, LLC for certain liabilities;

- DCP Midstream, LLC s obligation to continue to maintain its credit support, including without limitation guarantees and letters of credit, for our obligations related to derivative financial instruments, such as commodity price hedging contracts, to the extent that such credit support arrangements were in effect as of the closing of our initial public offering in December 2005, until the earlier to occur of the fifth anniversary of the closing of our initial public offering or such time as we obtain an investment grade credit rating from either Moody s Investor Services, Inc. or Standard & Poor s Ratings Group with respect to any of our unsecured indebtedness; and

- DCP Midstream, LLC s obligation to continue to maintain its credit support, including without limitation guarantees and letters of credit, for our obligations related to commercial contracts with respect to its business or operations that were in effect at the closing of our initial public offering until the expiration of such contracts.

Any or all of the provisions of the Omnibus Agreement, other than the indemnification provisions, will be terminable by DCP Midstream, LLC at its option if the general partner is removed without cause and units held by the general partner and its affiliates are not voted in favor of that removal. The Omnibus Agreement will also terminate in the event of a change of control of us, the general partner (DCP Midstream GP, LP) or the General Partner (DCP Midstream GP, LLC).

Indemnification

Under the Omnibus Agreement, DCP Midstream, LLC will indemnify us for three years after the closing of our initial public offering against certain potential environmental claims, losses and expenses associated with the operation of the assets and occurring before the closing date of our initial public offering. DCP Midstream, LLC s maximum liability for this indemnification obligation does not exceed $15.0 million and DCP Midstream, LLC does not have any obligation under this indemnification until our aggregate losses exceed $250,000. DCP Midstream, LLC has no indemnification obligations with respect to environmental claims made as a result of additions to or modifications of environmental laws promulgated after the closing date of our initial public offering. We have agreed to indemnify DCP Midstream, LLC against environmental liabilities related to our assets to the extent DCP Midstream, LLC is not required to indemnify us.

Additionally, DCP Midstream, LLC will indemnify us for losses attributable to title defects, retained assets and liabilities (including preclosing litigation relating to contributed assets) and income taxes attributable to pre-closing operations. We will indemnify DCP Midstream, LLC for all losses attributable to the postclosing operations of the assets contributed to us, to the extent not subject to DCP Midstream, LLC s indemnification obligations. In addition, DCP Midstream, LLC has agreed to indemnify us for up to $5.3 million of our pro rata share of any capital contributions required to be made by us to Black Lake Pipe Line Company, or Black Lake, associated with any repairs to the Black Lake pipeline that are determined to be necessary as a result of the currently ongoing pipeline integrity testing occurring from 2005 through 2007. DCP Midstream, LLC had also agreed to indemnify us for up to $4.0 million of the costs associated with any repairs to the Seabreeze pipeline that were determined to be necessary as a result of pipeline integrity testing that occurred in 2006. Pipeline integrity testing and repairs were our responsibility and were recognized as operating and maintenance expense. Reimbursement of these expenses from DCP Midstream, LLC were not significant and were recognized by us as capital contributions.

Other Agreements and Transactions with DCP Midstream, LLC

DCP Midstream, LLC owns certain assets and is party to certain contractual relationships around our Pelico system 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 the inlet of the Pelico system, and is able to take natural gas from the outlet of the Pelico system and market it downstream of Pelico. Because of DCP Midstream, LLC s ability to move natural gas around Pelico, there are certain contractual relationships around Pelico that define how natural gas is bought and sold between us and DCP Midstream, LLC. The agreement is described below:

DCP Midstream, LLC will supply Pelico s system requirements that exceed its on-system supply. Accordingly, DCP Midstream, LLC purchases natural gas and transports it to our Pelico system, where we buy the gas from DCP Midstream, LLC at the actual acquisition cost plus transportation service charges incurred. We generally report purchases associated with these activities gross in the condensed consolidated statements of operations as purchases of natural gas, propane and NGLs from affiliates.

If our Pelico system has volumes in excess of the on-system demand, DCP Midstream, LLC will purchase the excess natural gas from us and transport it to sales points at an index-based price, less a contractually agreed-to marketing fee. We generally report revenues associated with these activities gross in the condensed consolidated statements of operations as sales of natural gas, propane and NGLs to affiliates.

In addition, DCP Midstream, LLC may purchase other excess natural gas volumes at certain Pelico outlets for a price that equals the original Pelico purchase price from DCP Midstream, LLC, plus a portion of the index differential between upstream sources to certain downstream indices with a maximum differential and a minimum differential, plus a fixed fuel charge and other related adjustments. We generally report revenues and purchases associated with these activities net in the condensed consolidated statements of operations as transportation and processing services to affiliates.

In addition, we sell NGLs and condensate from our Minden and Ada processing plants, and condensate from our Pelico system to a subsidiary of DCP Midstream, LLC equal to that subsidiary s net weighted-average sales price, adjusted for transportation and other charges from the tailgate of the respective asset, which is recorded in the condensed consolidated statements of operations as sales of natural gas, propane, NGLs and condensate to affiliates. We also sell propane to a subsidiary of DCP Midstream, LLC.

We also have a contractual arrangement with a subsidiary of DCP Midstream, LLC that provides that DCP Midstream, LLC will pay us to transport NGLs over our Seabreeze pipeline, pursuant to a fee-based rate that will be applied to the volumes transported. DCP Midstream, LLC is the sole shipper on the Seabreeze pipeline under a 17-year transportation agreement expiring in 2022. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation and processing services to affiliates.

In December 2006, we completed construction of our Wilbreeze pipeline, which connects a DCP Midstream, LLC gas processing plant to our Seabreeze pipeline. The project is supported by a 10-year NGL product dedication agreement with DCP Midstream, LLC. We generally report revenues, which are earned pursuant to a fee-based rate applied to the volumes transported on this pipeline, in the condensed consolidated statements of operations as transportation and processing services to affiliates.

We anticipate continuing to purchase commodities from and sell commodities to DCP Midstream, LLC in the ordinary course of business.

DCP Midstream, LLC was a significant customer during the three and six months ended June 30, 2007 and 2006.

Duke Energy

Prior to December 31, 2006, we charged transportation fees, sold a portion of our residue gas to, and purchased raw natural gas from, Duke Energy Corporation, or Duke Energy, and its affiliates.

ConocoPhillips

We have multiple agreements whereby we provide a variety of services to ConocoPhillips and its affiliates. The agreements include fee-based and percentage-of-proceeds gathering and processing arrangements, gas purchase and gas sales agreements. We anticipate continuing to purchase from and sell these commodities to ConocoPhillips and its affiliates in the ordinary course of business. In addition, we may be reimbursed by ConocoPhillips for certain capital projects where the work is performed by us. We received $1.5 million and $1.2 million of capital reimbursements during the six months ended June 30, 2007 and 2006, respectively.

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The following table summarizes the transactions with affiliates ($ in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
DCP Midstream, LLC:				
Sales of natural gas, propane, NGLs and condensate	$ 59.3	$ 46.0	$ 113.9	$ 120.9
Transportation and processing services	$ 1.3	$ 1.3	$ 2.9	$ 2.5
Purchases of natural gas, propane and NGLs	$ 30.0	$ 20.1	$ 70.0	$ 48.0
Losses from non-trading derivative activity, net	$ (0.4)	$ (0.4)	$ (0.5)	$ (0.5)
General and administrative expense	$ 2.4	$ 1.9	$ 4.7	$ 3.8
Duke Energy:				
Purchases of natural gas, propane and NGLs	$	$ 1.7	$	$ 1