DCP Midstream Partners, LP
Form 10-Q
August 08, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x	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 x

As of August 3, 2012, there were outstanding 58,620,541 common units representing limited partner interests.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012

TABLE OF CONTENTS

Table of Contents

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

Table of Contents

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- 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;

- 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, and their impact on producers and customers served by our systems;

- 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, 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)

	June 30, 2012	December 31, 2011
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5.5	$ 7.6
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $0.4 million and $0.3 million, respectively	55.9	108.6
Affiliates	63.9	106.2
Inventories	74.0	87.9
Unrealized gains on derivative instruments	53.9	41.2
Other	1.5	2.2
Total current assets	254.7	353.7
Property, plant and equipment, net	1,578.7	1,499.4
Goodwill	153.8	153.8
Intangible assets, net	141.1	145.3
Investments in unconsolidated affiliates	147.1	107.1
Unrealized gains on derivative instruments	43.8	6.4
Other long-term assets	14.3	11.7
Total assets	$ 2,333.5	$ 2,277.4
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 133.6	$ 231.7
Affiliates	6.7	46.8
Unrealized losses on derivative instruments	31.9	59.9
Other	54.3	42.1
Total current liabilities	226.5	380.5
Long-term debt	948.3	746.8
Unrealized losses on derivative instruments	16.6	32.8
Other long-term liabilities	22.5	19.0
Total liabilities	1,213.9	1,179.1
Commitments and contingent liabilities		
Equity:		
Predecessor equity		257.4
Common unitholders (52,094,641 and 44,848,703 units issued and outstanding, respectively)	1,103.3	654.4

General partner	(1.7)	(4.7)
Accumulated other comprehensive loss	(16.8)	(21.2)
Total partners equity	1,084.8	885.9
Noncontrolling interests	34.8	212.4
Total equity	1,119.6	1,098.3
Total liabilities and equity	$ 2,333.5	$ 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions, except per unit amounts)			
Operating revenues:				
Sales of natural gas, propane, NGLs and condensate	$ 125.4	$ 215.7	$ 395.9	$ 573.9
Sales of natural gas, propane, NGLs and condensate to affiliates	171.1	305.8	387.7	582.7
Transportation, processing and other	33.5	32.3	66.3	66.1
Transportation, processing and other to affiliates	8.4	8.1	19.4	13.3
Gains (losses) from commodity derivative activity, net	37.1	14.0	28.1	(25.1)
Gains (losses) from commodity derivative activity, net affiliates	38.2	(0.3)	41.9	(1.4)
Total operating revenues	413.7	575.6	939.3	1,209.5
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	218.9	369.0	513.1	778.3
Purchases of natural gas, propane and NGLs from affiliates	55.3	84.2	192.3	237.0
Operating and maintenance expense	29.7	26.0	56.0	54.6
Depreciation and amortization expense	9.6	24.7	34.8	49.0
General and administrative expense	3.6	4.1	8.2	8.5
General and administrative expense affiliates	7.4	7.4	14.7	14.7
Other income	(0.2)	(0.1)	(0.3)	(0.2)
Total operating costs and expenses	324.3	515.3	818.8	1,141.9
Operating income	89.4	60.3	120.5	67.6
Interest expense	(11.1)	(8.4)	(23.7)	(16.4)
Earnings from unconsolidated affiliates	2.0	5.7	7.7	10.2
Income before income taxes	80.3	57.6	104.5	61.4
Income tax expense	(0.5)	(0.2)	(0.7)	(0.5)
Net income	79.8	57.4	103.8	60.9
Net income attributable to noncontrolling interests	(0.7)	(9.7)	(1.4)	(13.2)
Net income attributable to partners	79.1	47.7	102.4	47.7
Net loss (income) attributable to predecessor operations		(6.2)	(2.6)	(12.1)
General partner s interest in net income	(10.2)	(6.2)	(18.6)	(11.7)
Net income allocable to limited partners	$ 68.9	$ 35.3	$ 81.2	$ 23.9
Net income per limited partner unit basic	$ 1.33	$ 0.80	$ 1.64	$ 0.56
Net income per limited partner unit diluted	$ 1.33	$ 0.80	$ 1.64	$ 0.56
Weighted-average limited partner units outstanding basic	51.9	44.1	49.4	42.7
Weighted-average limited partner units outstanding diluted	51.9	44.2	49.4	42.7

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Millions)			
Net income	$ 79.8	$ 57.4	$ 103.8	$ 60.9
Other comprehensive income (loss):				
Reclassification of cash flow hedge losses into earnings	4.0	5.1	9.3	10.4
Net unrealized losses on cash flow hedges	(1.6)	(3.4)	(0.7)	(4.3)
Net unrealized losses on cash flow hedges - predecessor		(0.4)	(0.6)	(0.4)
Total other comprehensive income	2.4	1.3	8.0	5.7
Total comprehensive income	82.2	58.7	111.8	66.6
Total comprehensive income attributable to noncontrolling interests	(0.7)	(9.7)	(1.4)	(13.2)
Total comprehensive income attributable to partners	$ 81.5	$ 49.0	$ 110.4	$ 53.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions)	
OPERATING ACTIVITIES:		
Net income	$ 103.8	$ 60.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	34.8	49.0
Earnings from unconsolidated affiliates	(7.7)	(10.2)
Distributions from unconsolidated affiliates	8.4	11.9
Net unrealized (gains) losses on derivative instruments	(41.4)	13.1
Other, net	0.6	(6.1)
Change in operating assets and liabilities, which provided (used) cash net of effects of acquisitions:		
Accounts receivable	94.9	43.7
Inventories	13.9	7.1
Accounts payable	(139.1)	(40.4)
Accrued interest	5.1	0.1
Other current assets and liabilities	(0.9)	(20.0)
Other long-term assets and liabilities	(0.8)	(2.8)
Net cash provided by operating activities	71.6	106.3
INVESTING ACTIVITIES:		
Capital expenditures	(99.8)	(68.4)
Acquisitions, net of cash acquired	(291.6)	(37.2)
Acquisition of unconsolidated affiliate		(114.3)
Investments in unconsolidated affiliates	(42.4)	(2.8)
Return of investment from unconsolidated affiliate	1.0	1.6
Proceeds from sale of assets	0.1	0.2
Net cash used in investing activities	(432.7)	(220.9)
FINANCING ACTIVITIES:		
Proceeds from debt	1,008.4	716.0
Payments of debt	(807.0)	(653.0)
Payment of deferred financing costs	(3.2)	(0.1)
Excess purchase price over acquired assets		(35.7)
Proceeds from issuance of common units, net of offering costs	248.0	139.4
Net change in advances to predecessor from DCP Midstream, LLC	(11.5)	17.8
Distributions to unitholders and general partner	(79.4)	(63.4)
Distributions to noncontrolling interests	(3.2)	(15.8)
Contributions from DCP Midstream, LLC	6.9	5.6
Net cash provided by financing activities	359.0	110.8
Net change in cash and cash equivalents	(2.1)	(3.8)
Cash and cash equivalents, beginning of period	7.6	6.7

Cash and cash equivalents, end of period	$	5.5	$	2.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

		Partners Equity				
	Predecessor Equity	Common Unitholders	General Partner	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
			(Millions)			
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		56.5		(4.2)		52.3
Issuance of 5,487,300 common units		248.0				248.0
Equity-based compensation		(0.4)				(0.4)
Distributions to unitholders and general partner		(63.8)	(15.6)			(79.4)
Distributions to noncontrolling interests					(3.2)	(3.2)
Contributions from DCP Midstream, LLC		6.9				6.9
Comprehensive income:						
Net income attributable to predecessor operations	2.6					2.6
Net income		81.2	18.6		1.4	101.2
Reclassification of cash flow hedges into earnings				9.3		9.3
Net unrealized losses on cash flow hedges	(0.6)			(0.7)		(1.3)
Total comprehensive income	2.0	81.2	18.6	8.6	1.4	111.8
Balance, June 30, 2012	$	$ 1,103.3	$ (1.7)	$ (16.8)	$ 34.8	$ 1,119.6

5

Table of Contents

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

		Partners Equity				
	Predecessor Equity	Common Unitholders	General Partner	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
			(Millions)			
Balance, January 1, 2011	$ 337.8	$ 552.2	$ (6.4)	$ (27.7)	$ 220.1	$ 1,076.0
Net change in parent advances	22.2					22.2
Acquisition of Southeast Texas	(114.3)					(114.3)
Excess purchase price over acquired assets		(34.8)		(0.9)		(35.7)
Issuance of 3,596,636 common units		139.7				139.7
Equity-based compensation		2.3				2.3
Distributions to DCP Midstream, LLC		(2.6)				(2.6)
Distributions to unitholders and general partner		(52.5)	(10.9)			(63.4)
Distributions to noncontrolling interests					(15.8)	(15.8)
Contributions from DCP Midstream, LLC					5.6	5.6
Comprehensive income:						
Net income attributable to predecessor operations	12.1					12.1
Net income		23.9	11.7		13.2	48.8
Reclassification of cash flow hedges into earnings				10.4		10.4
Net unrealized losses on cash flow hedges	(0.4)			(4.3)		(4.7)
Total comprehensive income	11.7	23.9	11.7	6.1	13.2	66.6
Balance, June 30, 2011	$ 257.4	$ 628.2	$ (5.6)	$ (22.5)	$ 223.1	$ 1,080.6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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% 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; our East Texas system (of which 49.9% was acquired in January 2012); our Michigan system; 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, our 10% interest in the Texas Express NGL pipeline, 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. Prior to May 2012, 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. Effective May 2012, 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 26% 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. 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.

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 and six months ended June 30, 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 in our 2011 Annual Report included as Exhibit 99.3 to our Current Report on Form 8-K filed on June 14, 2012.

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 April 12, 2012, we acquired a 10% ownership interest in the Texas Express Pipeline joint venture from the operator, Enterprise Products Partners, L.P., or Enterprise, representing an approximate investment of $85.0 million in the joint venture. At closing, we paid $10.9 million for our 10% ownership interest, representing our proportionate share of the investment through the closing date, in the Texas Express Pipeline joint venture and will be responsible for spending an approximate $75.0 million for our share of the remaining construction costs of the pipeline. Originating near Skellytown in Carson County, Texas, the 20-inch diameter Texas Express Pipeline will extend approximately 580 miles to Enterprise s natural gas liquids fractionation and storage complex at Mont Belvieu, Texas, and will provide access to other third party facilities in the area. The Texas Express Pipeline will have an initial capacity of approximately 280 MBbls/d and currently has long-term, fee-based, ship-or-pay transportation commitments of 252 MBbls/d, including a commitment from DCP Midstream, LLC of 20 MBbls/d. The pipeline is expected to be completed by the second quarter of 2013.

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 to DCP Midstream, LLC. 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. Certain of the NGL commodity derivatives were valued at $24.6

million and represent consideration for the termination of a fee-based storage arrangement we had with DCP Midstream, LLC in conjunction with our initial 33.33% interest in Southeast Texas; the remaining portion of the commodity derivatives, valued at $14.9 million, mitigate a portion of our currently anticipated commodity price risk associated with the gathering and processing portion of the 66.67% interest in Southeast Texas acquired on March 30, 2012. 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.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

Combined Financial Information

The results of our 100% interest in Southeast Texas are included in the condensed consolidated balance sheets as of June 30, 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

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 loss	(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
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.

The results of our 100% interest in Southeast Texas are included in the condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011. The following table presents the previously reported condensed consolidated statements of operations for the three and six months ended June 30, 2011, adjusted for the acquisition of the remaining 66.67% interest in Southeast Texas from DCP Midstream, LLC:

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Three Months Ended June 30, 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	$ 323.1	$ 198.4	$	$ 521.5
Transportation, processing and other	38.5	1.9		40.4
Gains from commodity derivative activity, net	12.6	1.1		13.7
Total operating revenues	374.2	201.4		575.6
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	274.3	178.9		453.2
Operating and maintenance expense	21.7	4.3		26.0
Depreciation and amortization expense	20.1	4.6		24.7
General and administrative expense	8.6	2.9		11.5
Other income	(0.1)			(0.1)
Total operating costs and expenses	324.6	190.7		515.3
Operating income	49.6	10.7		60.3
Interest expense, net	(8.4)			(8.4)
Earnings from unconsolidated affiliates	10.0		(4.3)	5.7
Income before income taxes	51.2	10.7	(4.3)	57.6
Income tax expense		(0.2)		(0.2)
Net income	51.2	10.5	(4.3)	57.4
Net income attributable to noncontrolling interests	(9.7)			(9.7)
Net income attributable to partners	$ 41.5	$ 10.5	$ (4.3)	$ 47.7

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

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Six Months Ended June 30, 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	$ 752.8	$ 403.8	$	$ 1,156.6
Transportation, processing and other	74.1	5.3		79.4
(Losses) gains from commodity derivative activity, net	(27.6)	1.1		(26.5)
Total operating revenues	799.3	410.2		1,209.5
Operating costs and expenses:				
Purchases of natural gas, propane and NGLs	649.3	366.0		1,015.3
Operating and maintenance expense	45.8	8.8		54.6
Depreciation and amortization expense	40.0	9.0		49.0
General and administrative expense	17.6	5.6		23.2
Other income	(0.2)			(0.2)
Total operating costs and expenses	752.5	389.4		1,141.9
Operating income	46.8	20.8		67.6
Interest expense, net	(16.4)			(16.4)
Earnings from unconsolidated affiliates	18.6		(8.4)	10.2
Income before income taxes	49.0	20.8	(8.4)	61.4
Income tax expense	(0.2)	(0.3)		(0.5)
Net income	48.8	20.5	(8.4)	60.9
Net income attributable to noncontrolling interests	(13.2)			(13.2)
Net income attributable to partners	$ 35.6	$ 20.5	$ (8.4)	$ 47.7

(a) Amounts as previously reported with 33.33% of Southeast Texas results presented as earnings from unconsolidated affiliates.
(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 currently reported results are 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 consideration of $165.0 million, less $2.5 million in working capital and other customary purchase price adjustments, for a net purchase price of $162.5 million. $132.0 million of the consideration was financed with proceeds from our January 3, 2012 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 to DCP Midstream, LLC. The $22.7 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.

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Millions)			
Omnibus Agreement	$ 7.0	$ 2.5	$ 11.4	$ 5.0
Other fees DCP Midstream, LLC	0.4	4.8	3.2	9.5
Total DCP Midstream, LLC	$ 7.4	$ 7.3	$ 14.6	$ 14.5

In addition to the Omnibus Agreement, we incurred other general and administrative fees with DCP Midstream, LLC of $0.4 million and $0.4 million, for the three months ended June 30, 2012 and 2011, respectively, and $0.7 million and $0.7 million for the six months ended June 30, 2012 and 2011, respectively. These amounts include allocated expenses, including professional services, insurance and internal audit. For the six months ended June 30, 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 and six months ended June 30, 2011, Southeast Texas incurred $2.5 million and $5.0 million, respectively, in general and administrative expenses directly from DCP Midstream, LLC. For the three and six months ended June 30, 2011, East Texas incurred $1.9 million and $3.8 million, respectively, 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 and six months ended June 30, 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 as transportation, processing and other to affiliates.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

In conjunction with our acquisitions of our East Texas and Southeast Texas systems, which are 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 and Southeast Texas capital projects. These reimbursements are for specific 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 $2.5 million and $2.7 million for the three months ended June 30, 2012 and 2011, respectively, and $5.2 million and $5.6 million for the six months ended June 30, 2012 and 2011, respectively. DCP Midstream, LLC made capital contributions to Southeast Texas for capital projects of $1.7 million for the three months and six months ended June 30, 2012.

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.

With respect to our Wattenberg pipeline, 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. We incurred fees of $0.3 million and $0.5 million during the three and six months ended June 30, 2012, respectively, and $0.2 million during the three and six months ended June 30, 2011, which are included in operating and maintenance expense in the consolidated statements of operations.

DCP Midstream, LLC has issued parental guarantees, totaling $50.0 million as of June 30, 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.

Spectra Energy

We had propane supply agreements with Spectra Energy that terminated April 2012, which provided us propane supply at our marine terminals, included in our Wholesale Propane Logistics segment, for up to approximately 185 million gallons of propane annually.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

ConocoPhillips and Phillips 66

Prior to May 2012, 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. In May 2012, ConocoPhillips separated its business into two stand-alone publicly traded companies. 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 have multiple agreements with Phillips 66 and its affiliates, and anticipate continuing to sell to Phillips 66 and its affiliates in the ordinary course of business. Prior to ConocoPhillips separation in May 2012, these agreements were with ConocoPhillips. We continue to have agreements with ConocoPhillips, including fee-based and percent-of-proceeds gathering and processing arrangements, and gas purchase and gas sales agreements; however, we do not consider ConocoPhillips to be a related party effective May 1, 2012.

Summary of Transactions with Affiliates

The following table summarizes transactions with affiliates:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions)			
DCP Midstream, LLC:				
Sales of natural gas, propane, NGLs and condensate	$ 169.4	$ 286.1	$ 378.6	$ 551.5
Transportation, processing and other	$ 7.9	$ 6.3	$ 17.1	$ 9.5
Purchases of natural gas, propane and NGLs	$ 15.6	$ 35.6	$ 75.5	$ 98.6
Gains losses from commodity derivative activity, net	$ 38.2	$ (0.3)	$ 41.9	$ (1.4)
General and administrative expense	$ 7.4	$ 7.3	$ 14.6	$ 14.5
Spectra Energy:				
Purchases of natural gas, propane and NGLs	$ 39.4	$ 46.5	$ 113.1	$ 131.7
ConocoPhillips (a):				
Sales of natural gas, propane, NGLs and condensate	$ 1.6	$ 19.7	$ 9.0	$ 31.2
Transportation, processing and other	$ 0.5	$ 1.8	$ 2.3	$ 3.8
Purchases of natural gas, propane and NGLs	$ 0.3	$ 2.1	$ 1.3	$ 3.6
General and administrative expense	$	$ 0.1	$ 0.1	$ 0.2
Phillips 66 (a):				
Sales of natural gas, propane, NGLs and condensate	$ 0.1	$	$ 0.1	$
Unconsolidated affiliates:				
Purchases of natural gas, propane and NGLs	$	$	$ 2.4	$ 3.1

(a) In connection with the Phillips 66 separation, ConocoPhillips is not considered to be a related party for periods after April 30, 2012 and Phillips 66 is considered a related party for periods starting May 1, 2012.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We had balances with affiliates as follows:

	June 30, 2012	December 31, 2011
	(Millions)	
DCP Midstream, LLC:		
Accounts receivable	$ 62.3	$ 100.0
Accounts payable	$ 6.7	$ 22.6
Unrealized gains on derivative instruments current	$ 49.0	$ 0.6
Unrealized gains on derivative instruments long-term	$ 35.2	$
Unrealized losses on derivative instruments current	$ (13.4)	$ (0.6)
Unrealized losses on derivative instruments long-term	$ (2.5)	$
Spectra Energy:		
Accounts receivable	$	$ 0.1
Accounts payable	$	$ 21.4
ConocoPhillips (a):		
Accounts receivable	$	$ 6.1
Accounts payable	$	$ 0.4
Unrealized gains on derivative instruments current	$	$ 2.5
Unrealized losses on derivative instruments current	$	$ (2.0)
Phillips 66 (a):		
Accounts receivable	$ 1.6	$
Unconsolidated affiliates:		
Accounts payable	$	$ 2.4

(a) In connection with the Phillips 66 separation, ConocoPhillips is not considered to be a related party for periods after April 30, 2012 and Phillips 66 is considered a related party for periods starting May 1, 2012.

5. Inventories

Inventories were as follows:

	June 30, 2012	December 31, 2011
	(millions)	
Natural gas	$ 16.5	$ 25.6
NGLs	57.5	62.3
Total inventories	$ 74.0	$ 87.9

We may recognize lower of cost or market adjustments when the carrying value of our inventories exceeds their estimated market value. These non-cash charges are a component of purchases of natural gas, propane and NGLs in the condensed consolidated statements of operations. We recognized $14.5 million and $19.1 million in lower of cost or market adjustments during the three and six months ended June 30, 2012, respectively. We recognized $0.6 million in lower of cost or market adjustments during the six months ended June 30, 2011 and no lower of cost or market adjustments to our natural gas and NGL inventories for the three months ended June 30, 2011.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Property, Plant and Equipment

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

	Depreciable Life	June 30, 2012	December 31, 2011
		(Millions)	
Gathering and transmission systems	20 50 Years	$ 1,261.6	$ 1,211.9
Processing, storage, and terminal facilities	35 60 Years	775.1	742.8
Other	3 30 Years	22.9	23.1
Construction work in progress		246.3	218.3
Property, plant and equipment		2,305.9	2,196.1
Accumulated depreciation		(727.2)	(696.7)
Property, plant and equipment, net		$ 1,578.7	$ 1,499.4

Interest capitalized on construction projects for the three months ended June 30, 2012 and 2011 was $1.8 million and $0.3 million, respectively, and for the six months ended June 30, 2012 and 2011 was $3.0 million and $0.5 million, respectively.

We revised the depreciable lives for our gathering and transmission systems, processing, storage and terminal facilities, and other assets effective April 1, 2012. The key contributing factors to the change in depreciable lives is an increase in the estimated remaining economically recoverable reserves resulting from the development of techniques that improve commodity production in the regions our assets serve. Advances in extraction processes, along with better technology used to locate commodity reserves, is giving producers greater access to unconventional commodities. Based on our property, plant and equipment as of April 1, 2012, the new remaining depreciable lives resulted in an approximate $11.9 million reduction in depreciation expense for the three and six months ended June 30, 2012 and will result in an estimated reduction in depreciation expense of $36.0 million for the year ended December 31, 2012. This change in our estimated depreciable lives increased net income per limited partner unit by $0.23 and $0.24 for the three and six months ended June 30, 2012.

In connection with our evaluation of useful lives, we corrected the classification for certain assets within the presentation of our major classes of property, plant and equipment as of December 31, 2011.

Depreciation expense was $7.5 million and $22.6 million for the three months ended June 30, 2012 and 2011, respectively, and $30.6 million and $44.8 million for the six months ended June 30, 2012 and 2011, respectively.

Asset Retirement Obligations As of June 30, 2012, we had asset retirement obligations of $16.3 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 June 30, 2012, accretion expense was $0.2 million, and for the six months ended June 30, 2012, accretion benefit was $0.4 million. For the three and six months ended June 30, 2011, accretion expense was $0.1 million and $0.3 million, respectively.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Goodwill and Intangible Assets

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

	Six Months Ended June 30, 2012	Year Ended 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 June 30, 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.

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:

	June 30, 2012	December 31, 2011
	(Millions)	
Gross carrying amount	$ 164.3	$ 164.3
Accumulated amortization	(23.2)	(19.0)
Intangible assets, net	$ 141.1	$ 145.3

We recorded amortization expense of $2.1 million for each of the three months ended June 30, 2012 and 2011, and $4.2 million for each of the six months ended June 30, 2012 and 2011, respectively. As of June 30, 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	$ 4.2
2013	8.4
2014	8.4
2015	8.4
2016	8.4

Thereafter	103.3
Total	$ 141.1

18

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

	Percentage Ownership	Carrying Value as of June 30, 2012	December 31, 2011
		(Millions)	
Discovery Producer Services LLC	40%	$ 136.0	$ 106.9
Texas Express Pipeline	10%	10.9	
Other	50%	0.2	0.2
Total investments in unconsolidated affiliates		$ 147.1	$ 107.1

There was a deficit between the carrying amount of the investment and the underlying equity of Discovery of $31.4 million and $32.6 million at June 30, 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions)			
Discovery Producer Services LLC	$ 2.0	$ 5.7	$ 7.7	$ 10.2
Total earnings from unconsolidated affiliates	$ 2.0	$ 5.7	$ 7.7	$ 10.2

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Millions)			
Statements of operations:				
Operating revenue	$ 35.9	$ 52.8	$ 83.1	$ 103.5
Operating expenses	$ 31.8	$ 40.0	$ 66.4	$ 81.0
Net income	$ 3.5	$ 12.8	$ 16.2	$ 22.5

	June 30, 2012	December 31, 2011
	(Millions)	
Balance sheets:		
Current assets	$ 40.3	$ 37.4
Long-term assets	587.8	350.5
Current liabilities	(58.2)	(17.4)
Long-term liabilities	(30.8)	(26.6)
Net assets	$ 539.1	$ 343.9

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

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.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

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

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

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

The following table presents the financial instruments carried at fair value as of June 30, 2012 and December 31, 2011, by consolidated balance sheet caption and by valuation hierarchy as described above:

	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(Millions)							
Current assets:								
Commodity derivatives (a)	$	$ 10.3	$ 43.6	$ 53.9	$	$ 40.1	$ 1.1	$ 41.2
Long-term assets:								
Commodity derivatives (b)	$	$ 8.3	$ 35.5	$ 43.8	$	$ 5.4	$ 1.0	$ 6.4
Current liabilities (c):								
Commodity derivatives	$	$ (27.5)	$ (0.4)	$ (27.9)	$	$ (43.1)	$ (0.7)	$ (43.8)
Interest rate derivatives	$	$ (4.0)	$	$ (4.0)	$	$ (16.1)	$	$ (16.1)
Long-term liabilities (d):								
Commodity derivatives	$	$ (12.6)	$ (0.3)	$ (12.9)	$	$ (27.5)	$ (0.3)	$ (27.8)
Interest rate derivatives	$	$ (3.7)	$	$ (3.7)	$	$ (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.

Table of Contents

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 u