FINAL TRANSCRIPT

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DPM - Q1 2006 DCP MIDSTREAM PARTNERS LP Earnings Conference Call

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CORPORATE PARTICIPANTS

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Jim Mogg
DCP Midstream Partners - Chairman

Mike Bradley
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Michael Bloom
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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the DCP Midstream Partners LP fourth quarter 2005 earnings conference call. My name is Jen and I will be your coordinator for today.

[Operator Instructions]

I would now like to hand the presentation over to Ms. Karen Taylor, Director of Investor Relations. Please proceed, ma'am.

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

Thank you and good morning everyone. Welcome to DCP Midstream Partners fourth quarter 2005 earnings release call.

Today you will hear from Jim Mogg, our Chairman; Mike Bradley, our President and CEO; and Tom Long, our Vice President and Chief Financial Officer. We also have with us David Garrett, who is the Commercial Vice President over our assets.

Before turning it over to Jim Mogg, I'd like to make a few comments. Our discussion today may contain forward-looking statements. Actual results may differ due to certain risk factors that affect our business.

All of the slides we'll be talking from today are available on our website at www.dcppartners.com in PDF format. The second slide in the deck describes our use of forward-looking statements and lists some of the risk factors that may affect actual results. Please read that slide.

For a complete listing of the risk factors that may impact our business results, please review our prospectus dated December 1, 2005 as filed with the SEC on December 2, 2005.

In addition, during our discussion we will use various non-GAAP measures including EBITDA, growth margin and distributable cash flow. These measures are reconciled to the nearest GAAP or generally accepted accounting principals measure in schedules at the end of the presentation on the website starting with slide 15. We ask that you read those slides, as well.

And finally, please note that DCP Midstream Partners completed its initial public offering of common units on December 7, 2005. Earnings for periods prior to the date of the initial public offering are attributable to DCP Midstream Partner's predecessor, which consists of various subsidiaries and assets of Duke Energy Field Services, LLC, the owner of the partnership's general partner. And now I'll turn it over to Jim Mogg, our Chairman.

Jim Mogg - *DCP Midstream Partners - Chairman*

Thanks Karen. Good morning, and welcome to DCP Midstream Partners first earnings call.

I'm going to start with slide number 4, which contains a few highlights of our first month of operations.

As you know, we conducted a very successful initial public offering in early December and we are now very focused on growing DCP Midstream Partners. With the affiliation we have with Duke Energy Field Services, today one of the largest natural gas gatherers and the largest producer of natural gas liquids in the United States and its parents, Duke Energy and Conoco Philips, we have very strong sponsorship to assist us in achieving the primary objective of DCP Midstream Partners, which is to provide stable and increasing cash flows that will allow us to increase the distributions on our units in the future.

This sponsorship provides DCP Midstream with significant opportunities to grow either through acquisitions from third parties or from our sponsors. Additionally, we have identified opportunities for organic growth around our existing business.

In December we announced the addition of several outside directors to complete the board of directors of DCP Midstream. We're extremely pleased with this very talented board, which has several decades of energy experience and extensive relationships in our industry. This board will be instrumental in setting strategic direction, providing corporate governance and delivering value to our unit holders.

Let me close by reminding you that we've been around this MLP block before. We're happy to say we're off to a good start with DCP Midstream as the employees delivered a very strong fourth quarter. Mike and Tom will go into that in more detail and with that I'll turn it over to Mike Bradley for the quarterly highlights and a discussion of our business.

Mike Bradley - *DCP Midstream Partners - President and CEO*

Thank you Jim. As Jim said, we are all very excited about the launch of DCP Midstream Partners and we're also very pleased to say that we're off to a great start.

Before we go into the details of our financial results I have a few highlights that I would like to cover and lets start with slide number 6, which is a summary of our operating highlights.

First, we are pleased to report very strong results for the fourth quarter and for the year. The partnership reported net income of $19.6 million for the fourth quarter of 2005. Compared to net income of $6.5 million for the fourth quarter of 2004. Which is approximately a 200% increase.

This increase was primarily due to strong commodity prices and marketing activity resulting in higher volumes in revenues in our natural gas services segment. For the year ended December 31, 2005, we reported net income of $38 million compared to net income of $20.4 million for the year ended December 31, 2004. This increase was again primarily due to strong commodity prices and marketing activity, resulting in both higher volumes and revenues in our natural gas services segment.

On January 25th we announced our initial quarterly cash distribution in the amount of 9.5 cents per unit to be paid on February 13th to unit holders of record as of February 3rd. This distribution is prorated from the date of the close of the initial public offering on December 7th through the end of the year and is based on our $0.35 per unit quarterly distribution.

Volumes and demand for our services remain strong for the fourth quarter and year to date. We saw a 26% increase in throughput to 400 million cubic feet per day in the fourth quarter of 2005 from 317 million cubic feet per day in the fourth quarter of 2004. About 80% of this increase was attributable to our Pelico system through put, which I'll discuss in just a minute.

We did see a 22% decrease in NGL production in the fourth quarter of 2005, compared to fourth quarter 2004 and this was primarily due to less favorable ethane processing economics and down time at our mending gas processing plant associated with outages from hurricane Rita. The operations sustained no damage and have been fully restored.

Through put volumes on our NGL pipelines increased 5% in the fourth quarter of 2005 compared to the fourth quarter of 2004. And this increase is primarily due to higher volumes on our Seabreeze pipeline.

During the fourth quarter of 2005, the partnership was able to benefit from marketing activities and increased through put related to what I will say is atypical and significant differences in natural gas prices at various receipt and delivery points on our Pelico intrastate pipeline system.

This activity across Pelico was a significant contributor of earnings and increased volumes generating an incremental $10.8 million for the quarter and $9.3 million for the year. These conditions created a unique opportunity for us to capture significant upside earnings during the quarter.

While these market conditions and earnings should not be considered normal, our assets are well-positioned and we have the marketing expertise to capture upside opportunities as they present themselves.

And finally, and very importantly, we're pleased this morning to announce a project to construct a new pipeline to connect with our Seabreeze pipeline, and please turn to slide number 7.

We plan to build a 37-mile pipeline to connect an additional gas processing plant owned by our sponsor, Duke Energy Field Services. We estimate this project will be completed in the fourth quarter of 2006 and will add approximately 5,300 barrels per day of throughput to the Seabreeze pipeline under a 10-year commitment for the product.

We estimate spending approximately $12 million in capital to complete this project and we have the cash on hand to fund this project internally. We will disclose more about this project as our plans progress. But this will be a very accretive project.

Next, I want to move on to review some key investment highlights regarding DCP Midstream Partners, and I'm on slide number 8.

First, as Jim mentioned, we have very strong sponsor support from Duke Energy Field Services and its parents, Duke Energy and Conoco Philips. Our strategy is to capitalize on our sponsor affiliation, which includes access to industry leading talent and infrastructure in combination with broad scope and industry relationships, which we believe will provide significant and tangible advantages to support our growth strategy, including the opportunity to have access to more deal flow.

Second, our assets are well-positioned in the markets they serve as indicated by the strong performance in the fourth quarter and for the year.

And finally, we had an experienced management team with a proven track record of growing both a midstream business and an NLP business. And we have a dedicated team who has committed 100% to the growth and management of DCP Midstream Partners.

As we have stated, DCP Midstream Partners is focused on drawing our business. But I do want to note that we're not here today to discuss or provide guidance on that growth, including prospects for or timing of any drop downs from our sponsors during this call.

We are and will continue to evaluate various growth opportunities, which may come from our sponsors. But they will also come from organic opportunities like the NGL pipeline project we announced today, or through third party acquisitions.

DCP Midstream Partners is an important vehicle to support and facilitate the growth for Duke Energy Field Services. Our dedicated management team is focused on achieving that growth for our unit holders.

Duke Energy Field Services maintains a 42% ownership in DCP Midstream Partners, including the incentive distribution rights of the general partner. So Duke Energy Field Services is aligned with our public unit holders to achieve our growth objectives and now I'll turn it over to Tom Long, our Vice President and CFO for a more detailed discussion on our fourth quarter earnings.

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

Thanks Mike. I'll start out with our consolidated statement of operations and then briefly discuss our results by segment and our distributable cash flow. I'll start with slide number 10.

Mike already mentioned our net income for the quarter and the year-end. Along with the upside we were able to capture on our Pelico system in the fourth quarter and year ended December 31, 2005. It is atypical from the historical earnings of these assets. We've also mentioned the benefit from increased commodity prices realized during the fourth quarter and year.

Beginning January 1, 2006, the partnership has hedged approximately 80% of the projected natural gas, natural gas liquids and condensate price exposure through December 31, 2010. This commodity exposure is attributable to our equity portion of the percentage of proceeds contracts and the condensate in our natural gas services segment.

As a result, changes in commodity prices will have a less significant impact on earnings and cash flows of the partnership in future periods. However, it is also important to note these hedges do not impact Pelico and therefore do not affect our ability to capture marketing upside as conditions may present in the future.

DCP Midstream Partners reported EBITDA of $22.8 million for the fourth quarter 2005, compared to $9.7 million in the corresponding 2004 period. This strong performance was driven primarily by higher commodity prices on our percentage of proceeds contracts, marketing activity and increased throughput in our natural gas services segment.

Operating and maintenance expense decreased by $1.2 million to $2.7 million in the fourth quarter of 2005. The decrease was primarily due to overhauls and plant turn around costs that were incurred at the Mendon Gas Processing Plan in the fourth quarter of 2004 that were non-recurring in 2005.

General and administrative expense increased $1.5 million to 3.2 million in the fourth quarter 2005, primarily due to public company offering cost.

For the year ended December 31, 2005, EBITDA increased to $50 million from $33 million reported for the year ended 2004. This $17 million increase is primarily due to higher commodity prices, increased marketing activity and increased throughput in our natural gas services segment and increased volumes in our NGL logistics segment, partially offset by operational disruptions from hurricane Rita.

Operating and maintenance expense increased 0.6 million to 14.2 million during this same time period primarily due to higher costs per pipeline integrity testing for our Pelico systems.

General and administrative expenses increased 4.9 million to 11.4 million in the year ended December 31, 2005 primarily due to public company offering costs of approximately $4 million.

In 2004 we recorded an impairment totaling 4.4 million related to our equity investment in Black Lake pipeline company. Net interest expense was 0.3 million in the fourth quarter 2005 and for the year ended December 31, 2005. This was due to interest on borrowings of $210 million on December 7, 2005 under DCP Midstream's $350 million credit facility that was associated with the closing of our IPO.

Lets move to slide number 11 and discuss our results for the natural gas services segment consisting of our north Louisiana system, which has our Mendon and [Ata] processing plants and gathering systems and our Pelico intrastate pipeline system.

Volumes increased 26% for the quarter and 9% for the year primarily due to increased through put on our Pelico system during the last 5 months of the year.

Volumes at our Ata system are up over 20% year on year as drilling and demand for our services increased.

Volumes at Mendon are slightly down for the year primarily due to hurricane downtime but are up for the quarter due to new packages of gas we were able to capture.

Gross margin increased 13.3 million to $27.6 million for the 3 month ended December 31, 2005. The increase was primarily due to 10.8 million from marketing activity and increased throughput across the Pelico system. Approximately $2.5 million due to higher commodity prices on our percentage of proceeds, processing agreements and $1 million from higher volumes through our Mendon processing plant and gathering systems and transport volumes on the Pelico system.

These increases were partially offset by $1 million, primarily due to decreased NGL recoveries at the Mendon gas processing plant.

For the year, December 31, 2005 gross margin increased to 71.4 million compared with 53.6 million for the corresponding 2004 period. Higher commodity prices accounted for approximately $8 million of the 17.8 million increase. The partnership also benefited $9.3 million from marketing activity and increased throughput across the Pelico system and $2.7 million from higher volumes through our Ata processing plan and gathering system and transport volumes on our Pelico system.

These increases were partially offset by approximately $2.5 million due to decreased NGL recoveries at the Mendon gas processing plant.

Now, moving on to slide 12 for our NGL logistics segment, which consists of our Seabreeze pipeline and our 45% interest in the Black Lake pipeline.

Volumes for Seabreeze pipeline increased 13% for the fourth quarter and 6% for the year in comparison with prior periods, primarily due to a third party pipeline returning to operation.

Volumes decreased on Black Lake pipeline for the quarter due to unfavorable ethane processing economics.

Gross margin increased 0.3 million for the 3 months and 0.5 million for the year ended December 31, 2005 in comparison with the prior year periods primarily due to increased throughput volumes on our Seabreeze pipeline.

Moving on to slide 13, the partnerships distributable cash flow for the fourth quarter 2005 was $22.2 million compared to the $8.4 million for the fourth quarter 2004. For the year ended December 31, 2005, distributable cash flow was $46 million compared to $30.5 million in the prior year.

Distributable cash flow for the quarter and year ended December 31, 2005 includes $0.3 million and 3.3 million respective for maintenance capital expenditures as compared to $1.1 million and 1.9 million respectively for the quarter and year ended December 31, 2004.

In summary, we are very pleased to report these strong results for both the quarter and the year and we're very much looking forward to an exciting and productive 2006 and with that I'll turn it back over to Karen for questions

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

Thanks Tom. Jen, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

[Operation Instructions]

Your first question comes from Michael Bloom with Wachovia Securities.

Michael Bloom - *Wachovia Securities - Analyst*

Everybody. I guess my first question is, can you talk about the prices you've realized because of natural gas and NGLs in the fourth quarter and I guess relative to the hedge prices you have locked in going forward for '06?

Jim Mogg - *DCP Midstream Partners - Chairman*

The natural gas prices that we saw during the fourth quarter for 2005 was $8.59. NGL prices were $0.85 per gallon. What we've hedged going forward is we've hedged our equity position and our natural gas at $9.20 in MMBTUs through 2010. So for a 5-year period. That is a flat hedge that we've put on.

As to the condensate, we've hedged that with crude oil and we've hedged that out also through 2010 at a flat price of $63.20 per barrel.

As to the natural gas liquids, we did use crude oil as a proxy here and we hedged that at $63.27 also through December 31, 2010. Does that answer your question?

Michael Bloom - *Wachovia Securities - Analyst*

Yes. No, that's great. Thanks. And then other question was just, can you talk about, from your perspective, what's driving those widening basis differentials along your pipeline and I guess going forward in 2006, do you see any dynamics changing in the market that would cause those differentials to narrow.

Mike Bradley - *DCP Midstream Partners - President and CEO*

Yes, this is Mike Bradley. I'll give you our perspectives on that. In the fourth quarter and really late second quarter - or late third quarter, I think you had a combination of 3 things that occurred. Particularly in November and December, what you had is you had gas production that was shut in from the hurricane which resulted in I guess short gas coming in to Louisiana, there's - we're increasing volumes coming from Texas and you combine that with some very cold temperatures and demand in the northeast, which created that situation, which resulted in very wide basis differentials across the state.

As far as '06, I can tell you that the dynamics have changed significantly at this point. Again, we've had warmer weather and there's been more gas coming on from the gulf coast, but we're not estimated that to occur. That's not to say it couldn't but again the dynamics today are different than they were in the fourth quarter.

Michael Bloom - *Wachovia Securities - Analyst*

Okay great. And then just the final question is just, what kind of returns would you be looking for on the NGL pipeline project?

Jim Mogg - *DCP Midstream Partners - Chairman*

Let me comment on that. As I mentioned, we planned to discuss more about this project, as we get a little further down the road. And we're really not prepared today to discuss financials for competitive reasons, but what we've looked at here is a project that will be very accretive to the unit holders and will generate good returns. And again, we'll share more of that, as we get a little bit further down the road.

Michael Bloom - *Wachovia Securities - Analyst*

Okay great. Well thank you very much.

Operator

[Operator Instructions]

As there are no further questions in the queue, I'll hand the presentation back to Ms. Karen Taylor for closing remarks.

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

Thank you. I'd like to thank everyone who joined us this morning for our first quarterly conference call for DCP Midstream Partners and we'll look forward to future discussions.

As a reminder, you can access a replay of this webcast as well as a transcript via our website at www.dcppartners.com. Thanks and have a great day.

Operator

Ladies and gentlemen, we thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Have a good day.
