

DCP Midstream Partners, LP  
Form S-3/A  
January 15, 2008

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**As filed with the Securities and Exchange Commission on January 15, 2008**  
**Registration Statement No. 333-146832**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Amendment No. 1**  
**to**  
**Form S-3**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

**DCP MIDSTREAM PARTNERS, LP**  
*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**4922**  
*(Primary Standard Industrial  
Classification Code Number)*

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

**370 17th Street, Suite 2775**  
**Denver, Colorado 80202**  
**(303) 633-2900**  
*(Address, including zip code, and telephone number,  
including area code, of registrants' principal executive offices)*

**Michael S. Richards**  
**General Counsel**  
**370 17th Street, Suite 2775**  
**Denver, Colorado 80202**  
**(303) 633-2900**  
*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

***Copy to:***

**Douglas E. McWilliams**  
**Vinson & Elkins L.L.P.**  
**1001 Fannin Street, Suite 2500**  
**Houston, Texas 77002**  
**(713) 758-2222**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to completion, dated January 15, 2008**

**PROSPECTUS**

**DCP Midstream Partners, LP**

**5,386,732 Common Units**

Up to 5,386,732 of our common units may be offered from time to time by the selling unitholders named in this prospectus. All of the common units were originally sold to the selling unitholders in private placements exempt from the registration requirements of the Securities Act of 1933, as amended. We are registering the offer and sale of the common units to satisfy registration rights that we have granted to the selling unitholders. The selling unitholders may sell the common units at various times and in various types of transactions, including sales in the open market, sales in negotiated transactions and sales by a combination of methods. We are not selling any common units under this prospectus and will not receive any proceeds from the sale of common units by the selling unitholders.

Our common units are traded on the New York Stock Exchange under the symbol DPM. On January 10, 2008, the last reported sale price of our common units on the New York Stock Exchange was \$39.60 per common unit.

**Limited partnerships are inherently different than corporations. You should carefully consider each of the factors described under Risk Factors beginning on page 6 of this prospectus before you make an investment in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2008

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**You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. You should not assume that the information incorporated by reference or provided in this prospectus is accurate as of any date other than the date on the front of this prospectus.**

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**GUIDE TO READING THIS PROSPECTUS**

**This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) for a continuous offering. Under this prospectus, the selling unitholders may, from time to time, sell the shares of our common units described in this prospectus in one or more offerings. This prospectus may be supplemented from time to time to add, update or change information in this prospectus. Any statement contained in this prospectus will be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained in a prospectus supplement modifies such statement. Any statement so modified will be deemed to constitute a part of this prospectus only as so modified, and any statement so modified will be deemed to constitute a part of this prospectus.**

Throughout this prospectus, when we use the terms we, us, or DCP, we are referring either to DCP Midstream Partners, LP, the registrant itself, or to DCP Midstream Partners, LP and its operating subsidiaries collectively, as the context requires. References in this prospectus to our general partner refer to DCP Midstream GP, LP and/or DCP Midstream GP, LLC, the general partner of DCP Midstream GP, LP, as appropriate.

**WHERE YOU CAN FIND MORE INFORMATION**

We incorporate by reference information into this prospectus, which means that we disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained expressly in this prospectus, and the information we file later with the SEC will automatically supersede this information. You should not assume that the information in this prospectus is current as of any date other than the date on the front page of this prospectus.

Any information that we file under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus, and that is deemed filed, with the SEC will automatically update and supersede this information. We incorporate by reference:

Our Annual Report on Form 10-K for the year ended December 31, 2006;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007;

Our Current Reports on Form 8-K filed February 22, 2007, March 13, 2007, April 20, 2007, May 2, 2007, May 10, 2007, May 14, 2007, May 25, 2007, May 25, 2007, June 20, 2007, June 25, 2007, June 27, 2007, July 2, 2007 (as amended by our Current Reports on Form 8-K/A filed on October 3, 2007 and October 16, 2007), July 11, 2007, August 9, 2007, September 5, 2007, September 17, 2007, October 10, 2007, October 17, 2007, October 17, 2007, October 30, 2007, November 8, 2007, November 13, 2007, November 14, 2007, December 20, 2007, January 7, 2008 and January 15, 2008; and

The description of our common units contained in our registration statement on Form 8-A filed on November 18, 2005, and any subsequent amendment or report filed for the purpose of updating such description.

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You may request a copy of any document incorporated by reference in this prospectus and any exhibit specifically incorporated by reference in those documents, at no cost, by writing or telephoning us at the following address or phone number:

DCP Midstream Partners, LP  
Secretary  
370 17th Street, Suite 2775  
Denver, Colorado  
(303) 633-2900

Additionally, you may read and copy any documents filed by us at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public from commercial document retrieval services and at the SEC's web site at <http://www.sec.gov>.

We also make available free of charge on our internet website at <http://www.dcppartners.com> our annual reports on Form 10-K and our quarterly reports on Form 10-Q, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with the SEC. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website as part of this prospectus.

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

Some of the information in this prospectus and 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 under Risk Factors beginning on page 6 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 our parents, 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 limit a portion of the adverse effects of potential changes in interest rates by entering into derivative financial instruments, and the credit ratings for our debt obligations;



the extent of changes in commodity prices, our ability to effectively limit a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;

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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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**DCP MIDSTREAM PARTNERS, LP**

**Overview**

We are a Delaware limited partnership formed by DCP Midstream, LLC to own, operate, acquire and develop a diversified portfolio of complementary midstream energy assets. We are currently engaged in the business of gathering, compressing, treating, processing, transporting and selling natural gas, the business of producing, transporting and selling propane and other natural gas liquids, or NGLs, and the business of storing propane. Supported by our relationship with DCP Midstream, LLC and its parents, Spectra Energy Corp, which we refer to as Spectra Energy, and ConocoPhillips, we intend to acquire and construct additional assets and we have a management team dedicated to executing our growth strategy.

Our operations are organized into three business segments, Natural Gas Services, Wholesale Propane Logistics and NGL Logistics.

Our Natural Gas Services segment is comprised of the following:

our North Louisiana system, which is an integrated pipeline system located in northern Louisiana and southern Arkansas that gathers, compresses, treats, processes, transports and sells natural gas, and that sells NGLs. This system consists of the following:

the Minden processing plant and gathering system, which includes a cryogenic natural gas processing plant supplied by approximately 700 miles of natural gas gathering pipelines, connected to approximately 460 receipt points, with throughput and processing capacity of approximately 115 million cubic feet per day, or MMcf/d;

the Ada processing plant and gathering system, which includes a refrigeration natural gas processing plant supplied by approximately 130 miles of natural gas gathering pipelines, connected to approximately 210 receipt points, with throughput capacity of approximately 80 MMcf/d; and

the Pelico Pipeline, LLC system, or Pelico system, an approximately 600-mile intrastate natural gas gathering and transportation pipeline with throughput capacity of approximately 250 MMcf/d and connections to the Minden and Ada processing plants and approximately 450 other receipt points. The Pelico system delivers natural gas to multiple interstate and intrastate pipelines, as well as directly to industrial and utility end-use markets;

our Southern Oklahoma, or Lindsay, gathering system, that was acquired in May 2007, which consists of approximately 225 miles of pipeline and 9,500 horsepower of compression, with throughput and processing capacity of approximately 25 MMcf/d;

our equity interests that were acquired in July 2007, which consist of the following:

our 40% interest in Discovery Producer Services LLC, or Discovery, which constructs and operates a natural gas processing plant, a natural gas liquids fractionator plant, a natural gas pipeline that transports gas from the Gulf of Mexico to their processing plant, and several laterals expanding their presence in the Gulf;

our 25% interest in DCP East Texas Holdings, LLC, or East Texas, which operates a natural gas processing complex that is connected to their gathering system as well as third party gathering systems, and delivers

residue gas to interstate and intrastate pipelines; and

our gathering, processing and compression assets that were acquired in August 2007, which consist of the following:

our 70% operating interest in the 31-mile Collbran Valley Gas Gathering system, or Collbran, which has assets in the Piceance Basin that gather and process natural gas from over 20,000 dedicated acres in western Colorado, and a processing facility with a capacity that is currently being expanded from 60 MMcf/d to 120 MMcf/d;

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The Powder River Basin assets, which include the 1,324-mile Douglas gas gathering system, that gathers approximately 30 MMcf/d of gas and covers more than 4,000 square miles in Wyoming, as well as an idle Painter Unit fractionator and Millis terminal, and associated NGL pipelines in southwest Wyoming.

Our Wholesale Propane Logistics segment, which we acquired in November 2006, consists of the following:

six owned rail terminals located in the Midwest and northeastern United States, with aggregate storage capacity of 25 thousand barrels, or MBbls;

one leased marine terminal located in Providence, Rhode Island, with storage capacity of 450 MBbls;

one pipeline terminal in Midland, Pennsylvania with storage capacity of 56 MBbls; and

access to several open access pipeline terminals.

Our NGL Logistics segment consists of the following:

our Seabreeze pipeline, an approximately 68-mile intrastate NGL pipeline in Texas with throughput capacity of 33 thousand barrels per day, or MBbls/d;

our Wilbreeze pipeline, the construction of which was completed in December 2006, an approximately 39-mile intrastate NGL pipeline in Texas, which connects a DCP Midstream, LLC gas processing plant to the Seabreeze pipeline, with throughput capacity of 11 MBbls/d; and

our 45% interest in the Black Lake Pipe Line Company, or Black Lake, the owner of an approximately 317-mile interstate NGL pipeline in Louisiana and Texas with throughput capacity of 40 MBbls/d.

**Partnership Structure and Management**

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through our 100% ownership interest in our operating partnership, DCP Midstream Operating, LP. DCP Midstream GP, LLC is the general partner of our general partner, DCP Midstream GP, LP, and has sole responsibility for conducting our business and managing our operations.

Our principal executive office is located at 370 17th Street, Suite 2775, Denver, Colorado 80202. Our telephone number is (303) 633-2900. Our common units are traded on the New York Stock Exchange under the symbol DPM.

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**RISK FACTORS**

*Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in similar businesses. Before you invest in our securities, you should carefully consider the following risk factors as well as those contained in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, each of which is incorporated by reference herein, and those that may be included in any applicable prospectus supplement, together with all of the other information included in this prospectus, any prospectus supplement and any other documents we incorporate by reference.*

*If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might not be able to pay the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment.*

**Risks Related to Our Business**

***We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to continue to make cash distributions to holders of our common units and subordinated units at our current distribution rate.***

We may not have sufficient available cash from operating surplus each quarter to enable us to continue to make cash distributions at our current distribution rate. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- the fees we charge and the margins we realize for our services;
- the prices of, level of production of, and demand for, natural gas, propane, condensate and NGLs;
- the volume of natural gas we gather, treat, compress, process, transport and sell, the volume of propane and NGLs we transport and sell, and the volumes of propane we store;
- the relationship between natural gas and NGL prices;
- the level of competition from other midstream energy companies;
- the impact of weather conditions on the demand for natural gas and propane;
- the level of our operating and maintenance and general and administrative costs; and
- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make;
- the cost and form of payment of acquisitions;

our debt service requirements and other liabilities;  
fluctuations in our working capital needs;  
our ability to borrow funds and access capital markets;  
restrictions contained in our debt agreements;  
the amount of cash distributions we receive from our equity interests; and  
the amount of cash reserves established by our general partner.

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***We have partial ownership interests in a number of joint venture legal entities, including Discovery, East Texas and Black Lake, which could adversely affect our ability to operate and control these entities. In addition, we may be unable to control the amount of cash we will receive from the operation of these entities and we could be required to contribute significant cash to fund our share of their operations, which could adversely affect our ability to distribute cash to you.***

Our inability to control the operations and management of joint venture legal entities that we have a partial ownership interest in may mean that we will not receive the amount of cash we expect to be distributed to us. In addition, for entities where we have a minority ownership interest, we will be unable to control ongoing operational decisions, including the incurrence of capital expenditures that we may be required to fund. Specifically,

We have limited ability to influence decisions with respect to the operations of these entities and their subsidiaries, including decisions with respect to incurrence of expenses and distributions to us;

These entities may establish reserves for working capital, capital projects, environmental matters and legal proceedings which would otherwise reduce cash available for distribution to us;

These entities may incur additional indebtedness, and principal and interest made on such indebtedness may reduce cash otherwise available for distribution to us; and

These entities may require us to make additional capital contributions to fund working capital and capital expenditures, our funding of which could reduce the amount of cash otherwise available for distribution.

All of these things could significantly and adversely impact our ability to distribute cash to you.

***The amount of cash we have available for distribution to holders of our common units and subordinated units depends primarily on our cash flow and not solely on profitability.***

You should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

***Because of the natural decline in production from existing wells, our success depends on our ability to obtain new sources of supplies of natural gas and NGLs, which are dependent on certain factors beyond our control. Any decrease in supplies of natural gas or NGLs could adversely affect our business, operating results and our ability to make cash distributions.***

Our gathering and transportation pipeline systems are connected to or dependent on the level of production from natural gas wells, from which production will naturally decline over time. As a result, our cash flows associated with these wells will also decline over time. In order to maintain or increase throughput levels on our gathering and transportation pipeline systems and NGL pipelines and the asset utilization rates at our natural gas processing plants, we must continually obtain new supplies. The primary factors affecting our ability to obtain new supplies of natural gas and NGLs, and to attract new customers to our assets include the level of successful drilling activity near these systems, and our ability to compete for volumes from successful new wells.

The level of drilling activity is dependent on economic and business factors beyond our control. The primary factor that impacts drilling decisions is natural gas prices. Currently, natural gas prices are high in relation to historical



prices. For example, the rolling twelve-month average New York Mercantile Exchange, or NYMEX, daily settlement price of natural gas futures contracts has increased from \$5.39 per MMBtu as of December 31, 2003 to \$7.96 per MMBtu as of December 31, 2007. If the high price for natural gas were to decline, the level of drilling activity could decrease. A sustained decline in natural gas prices could result in a decrease in exploration and development activities in the fields served by our gathering and pipeline transportation systems and our natural gas treating and processing plants, which would lead to reduced

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utilization of these assets. Other factors that impact production decisions include producers' capital budgets, the ability of producers to obtain necessary drilling and other governmental permits, access to drilling rigs and regulatory changes. Because of these factors, even if new natural gas reserves are discovered in areas served by our assets, producers may choose not to develop those reserves. If we are not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing wells due to reductions in drilling activity or competition, throughput on our pipelines and the utilization rates of our treating and processing facilities would decline, which could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to you.

***The cash flow from our Natural Gas Services segment is affected by natural gas, NGL and condensate prices, and decreases in these prices could adversely affect our ability to make distributions to holders of our common units and subordinated units.***

Our Natural Gas Services segment is affected by the level of natural gas, NGL and condensate prices. NGL and condensate prices generally fluctuate on a basis that correlates to fluctuations in crude oil prices. In the past, the prices of natural gas and crude oil have been extremely volatile, and we expect this volatility to continue. The markets and prices for natural gas, NGLs, condensate and crude oil depend upon factors beyond our control. These factors include supply of and demand for these commodities, which fluctuate with changes in market and economic conditions and other factors, including:

- the impact of weather;
- the level of domestic and offshore production;
- the availability of imported natural gas, NGLs and crude oil;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the availability and marketing of competitive fuels;
- the impact of energy conservation efforts; and
- the extent of governmental regulation and taxation.

Our primary natural gas gathering and processing arrangements that expose us to commodity price risk are our percentage-of-proceeds arrangements. Under percentage-of-proceeds arrangements, we generally purchase natural gas from producers for an agreed percentage of the proceeds from the sale of residue gas and NGLs resulting from our processing activities, and then sell the resulting residue gas and NGLs at market prices. Under these types of arrangements, our revenues and our cash flows increase or decrease, whichever is applicable, as the price of natural gas and NGLs fluctuate. We have mitigated a portion of our share of anticipated natural gas and NGL commodity price risk associated with these arrangements through 2013. Additionally, as part of our gathering operations, we recover and sell condensate. The margins we earn from condensate sales are directly correlated with crude oil prices. We have mitigated a portion of our share of anticipated condensate commodity price risk through 2013.

***Our derivative activities may have a material adverse effect on our earnings, profitability, cash flows and financial condition.***

We have mitigated a portion of our expected natural gas and NGL commodity price risk relating to our percentage-of-proceeds gathering and processing contracts through 2013 by entering into derivative financial instruments relating to the future price of natural gas and crude oil. In addition, we have mitigated a portion of our expected condensate commodity price risk relating to condensate recovered from our gathering operations through 2013 by entering into derivative financial instruments relating to the future price of crude oil. Additionally, we have entered into interest rate swap agreements to convert a portion of the variable rate revolving debt under our Credit Agreement to a fixed rate obligation, thereby reducing the exposure to market

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rate fluctuations. The intent of these arrangements is to reduce the volatility in our cash flows resulting from fluctuations in commodity prices and interest rates.

We will continue to evaluate whether to enter into any new derivative arrangements, but there can be no assurance that we will enter into any new derivative arrangement or that our future derivative arrangements will be on terms similar to our existing derivative arrangements. Also, we may seek in the future to further limit our exposure to changes in natural gas, NGL and condensate commodity prices and interest rates by using financial derivative instruments and other derivative mechanisms from time to time. To the extent we enter into derivative instruments to mitigate our commodity price and interest rate risk, we will forego the benefits we would otherwise experience if commodity prices or interest rates were to change in our favor.

Despite our risk management program, we remain exposed to risks associated with fluctuations in commodity prices. The extent of our commodity price risk is related largely to the effectiveness and scope of our derivative activities. For example, the derivative instruments we utilize are based on posted market prices, which may differ significantly from the actual natural gas, NGL and condensate prices that we realize in our operations. Furthermore, we have entered into derivative transactions related to only a portion of the volume of our expected natural gas supply and production of NGLs and condensate from our processing plants; as a result, we will continue to have direct commodity price risk to the open portion. Our actual future production may be significantly higher or lower than we estimate at the time we entered into the derivative transactions for that period. If the actual amount is higher than we estimate, we will have greater commodity price risk than we intended. If the actual amount is lower than the amount that is subject to our derivative financial instruments, we might be forced to satisfy all or a portion of our derivative transactions without the benefit of the cash flow from our sale of the underlying physical commodity, resulting in a reduction of our liquidity.

As a result of these factors, our derivative activities may not be as effective as we intend in reducing the volatility of our cash flows, and in certain circumstances may actually increase the volatility of our earnings and cash flows. In addition, even though our management monitors our derivative activities, these activities can result in substantial losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the applicable derivative arrangement, the derivative arrangement is imperfect or ineffective, or our risk management policies and procedures are not properly followed or do not work as planned. We cannot assure you that the steps we take to monitor our risk management activities will detect and prevent violations of our risk management policies and procedures, particularly if deception or other intentional misconduct is involved.

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, which is expected to significantly increase the volatility of our results of operations as we will recognize, in current earnings, all non-cash gains and losses from the mark-to-market on non-trading derivative activity.

***We typically do not obtain independent evaluations of natural gas reserves dedicated to our gathering and pipeline systems; therefore, volumes of natural gas on our systems in the future could be less than we anticipate.***

We typically do not obtain independent evaluations of natural gas reserves connected to our systems due to the unwillingness of producers to provide reserve information as well as the cost of such evaluations. Accordingly, we do not have independent estimates of total reserves dedicated to our systems or the anticipated life of such reserves. If the total reserves or estimated life of the reserves connected to our gathering systems is less than we anticipate and we are unable to secure additional sources of natural gas, then the volumes of natural gas on our systems in the future could be less than we anticipate. A decline in the volumes of natural gas on our systems could have a material adverse effect on our business, results of operations, financial condition and our ability to make cash distributions to you.



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***We depend on certain natural gas producer customers for a significant portion of our supply of natural gas and NGLs. The loss of any of these customers could result in a decline in our volumes, revenues and cash available for distribution.***

We rely on certain natural gas producer customers for a significant portion of our natural gas and NGL supply. We identify primary suppliers as those individually representing 10% or more of our total natural gas supply. Our primary suppliers of natural gas represented approximately 65% of the natural gas supplied in our Natural Gas Services segment in the nine months ended September 30, 2007. In our NGL Logistics segment, our largest NGL supplier is DCP Midstream, LLC, who obtains NGLs from various third party producer customers. While some of these customers are subject to long-term contracts, we may be unable to negotiate extensions or replacements of these contracts on favorable terms, if at all. The loss of all or even a portion of the natural gas and NGL volumes supplied by these customers, as a result of competition or otherwise, could have a material adverse effect on our business, results of operations and financial condition, unless we were able to acquire comparable volumes from other sources.

***If we are not able to purchase propane from our principal suppliers, our results of operations in our wholesale propane logistics business would be adversely affected.***

Most of our propane purchases are made under supply contracts that have a term of between one to five years and provide various pricing formulas. We identify primary suppliers as those individually representing 10% or more of our total propane supply. Our primary suppliers of propane represented approximately 83% of our propane purchases in the nine months ended September 30, 2007. In the event that we are unable to purchase propane from our significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would hurt our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

***We may not be able to grow or effectively manage our growth.***

A principal focus of our strategy is to continue to grow the per unit distribution on our units by expanding our business. Our future growth will depend upon a number of factors, some of which we can control and some of which we cannot. These factors include our ability to:

identify businesses engaged in managing, operating or owning pipelines, processing and storage assets or other midstream assets for acquisitions, joint ventures and construction projects;

consummate accretive acquisitions or joint ventures and complete construction projects;

appropriately identify any liabilities associated with any acquired businesses or assets;

integrate any acquired or constructed businesses or assets successfully with our existing operations and into our operating and financial systems and controls;

hire, train and retain qualified personnel to manage and operate our growing business; and

obtain required financing for our existing and new operations.

A deficiency in any of these factors could adversely affect our ability to achieve growth in the level of our cash flows or realize benefits from acquisitions, joint ventures or construction projects. In addition, competition from other buyers could reduce our acquisition opportunities or cause us to pay a higher price than we might otherwise pay. In addition, DCP Midstream, LLC and its affiliates are not restricted from competing with us. DCP Midstream, LLC and its affiliates may acquire, construct or dispose of midstream or other assets in the future without any obligation to

offer us the opportunity to purchase or construct those assets.

Furthermore, we have recently grown significantly through a series of acquisitions. For example, in May 2007 we acquired the Lindsay gathering system, in July 2007 we acquired a 25% interest in East Texas and a 40% interest in Discovery and in August we acquired certain subsidiaries of Momentum Energy Group Inc. If we fail to properly integrate these acquired assets successfully with our existing operations or we did

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not identify a significant liability associated with the acquired assets, the anticipated benefits from these acquisitions may not be fully realized.

***We may not successfully balance our purchases and sales of natural gas and propane, which would increase our exposure to commodity price risks.***

We purchase from producers and other customers a substantial amount of the natural gas that flows through our natural gas gathering, processing and transportation systems for resale to third parties, including natural gas marketers and end-users. In addition, in our wholesale propane logistics business, we purchase propane from a variety of sources and resell the propane to retail distributors. We may not be successful in balancing our purchases and sales. A producer or supplier could fail to deliver contracted volumes or deliver in excess of contracted volumes, or a purchaser could purchase less than contracted volumes. Any of these actions could cause our purchases and sales to be unbalanced. While we attempt to balance our purchases and sales, if our purchases and sales are unbalanced, we will face increased exposure to commodity price risks and could have increased volatility in our operating income and cash flows.

***Our NGL pipelines could be adversely affected by any decrease in NGL prices relative to the price of natural gas.***

The profitability of our NGL pipelines is dependent on the level of production of NGLs from processing plants connected to our NGL pipelines. When natural gas prices are high relative to NGL prices, it is less profitable to process natural gas because of the higher value of natural gas compared to the value of NGLs and because of the increased cost (principally that of natural gas as a feedstock and fuel) of separating the mixed NGLs from the natural gas. As a result, we may experience periods in which higher natural gas prices reduce the volume of natural gas processed at plants connected to our NGL pipelines, which would reduce the volumes and gross margins attributable to our NGL pipelines.

***If third-party pipelines and other facilities interconnected to our natural gas and NGL pipelines and facilities become unavailable to transport or produce natural gas and NGLs, our revenues and cash available for distribution could be adversely affected.***

We depend upon third party pipelines and other facilities that provide delivery options to and from our pipelines and facilities for the benefit of our customers. For example, the volumes of NGLs that are transported on our Seabreeze pipeline and the Black Lake pipeline are dependent upon a number of processing plants and NGL pipelines owned and operated by DCP Midstream, LLC and other third parties. In addition, our Pelico pipeline system is interconnected to several third-party intrastate and interstate pipelines. Since we do not own or operate any of these third-party pipelines or other facilities, their continuing operation is not within our control. If any of these third-party pipelines and other facilities become unavailable to transport or produce natural gas and NGLs, our revenues and cash available for distribution could be adversely affected.

***Our wholesale propane logistics business would be adversely affected if service at our terminals were interrupted.***

Historically, a substantial portion of the propane we purchase to support our wholesale propane logistics business is delivered to us at our rail terminals or is delivered by ship to us at our leased marine terminal in Providence, Rhode Island. We also rely on shipments of propane via the Buckeye Pipeline for our Midland Terminal and via TEPPCO Partners, LP's pipeline to open access terminals. Any significant interruption in the service at these terminals would adversely affect our ability to obtain propane, which could reduce the amount of propane that we distribute, our revenues or cash available for distribution.



***Our industry is highly competitive, and increased competitive pressure could adversely affect our business and operating results.***

We compete with similar enterprises in our respective areas of operation. Some of our competitors are large oil, natural gas and petrochemical companies that have greater financial resources and access to supplies

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of natural gas, propane and NGLs than we do. Some of these competitors may expand or construct gathering, processing and transportation systems that would create additional competition for the services we provide to our customers. In addition, our customers who are significant producers of natural gas may develop their own gathering, processing and transportation systems in lieu of using ours. Likewise, our customers who produce NGLs may develop their own systems to transport NGLs in lieu of using ours. Additionally, our wholesale propane distribution customers may develop their own sources of propane supply in lieu of seeking supplies from us. Our ability to renew or replace existing contracts with our customers at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of our competitors and our customers. All of these competitive pressures could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions.

***Since weather conditions may adversely affect the overall demand for propane, our wholesale propane business is vulnerable to, and could be adversely affected by, warm winters.***

Weather conditions could have an impact on the demand for wholesale propane because the end-users of propane depend on propane principally for heating purposes. As a result, warm weather conditions could adversely impact the demand for and prices of propane. Actual weather conditions can substantially change from one year to the next. Furthermore, since our wholesale propane logistics business is located almost solely in the northeast, warmer than normal temperatures in the northeast can decrease the total volume of propane we sell. Such conditions may also cause downward pressure on the price of propane, which could result in a lower of cost or market adjustment to the value of our inventory. Consequently, our operating results may vary due to actual changes in temperature.

***Competition from alternative energy sources and energy efficiency and technological advances may reduce the demand for propane, which could reduce the volumes of propane that we distribute.***

Competition from alternative energy sources, including natural gas and electricity, has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. In addition, propane competes with heating oil primarily in residential applications. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and availability of natural gas in the northeast, which has historically depended upon propane, could reduce the demand for propane, which could adversely affect the volumes of propane that we distribute. In addition, stricter conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could reduce the demand for propane in the future, which could adversely affect the volumes of propane that we distribute.

***A change in the jurisdictional characterization of some of our assets by federal, state or local regulatory agencies or a change in policy by those agencies may result in increased regulation of our assets, which may cause our revenues to decline and operating expenses to increase.***

Our natural gas gathering and intrastate transportation operations are generally, with the exception of Discovery, exempt from FERC regulation under the NGA, except for Section 311 as discussed below, but FERC regulation still affects these businesses and the markets for products derived from these businesses. FERC's policies and practices across the range of its oil and natural gas regulatory activities, including, for example, its policies on open access transportation, ratemaking, capacity release and market center promotion, indirectly affect intrastate markets. In recent years, FERC has pursued pro-competitive policies in its regulation of interstate oil and natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipeline rates and rules and policies that may affect rights of access to oil and natural gas transportation capacity. In addition, the distinction between FERC-regulated transmission services and federally unregulated gathering services has been the subject of regular litigation, so, in such a circumstance, the classification and regulation of some of our gathering facilities and

intrastate transportation pipelines may be subject to change based on future determinations by FERC and the courts.

In addition, the rates, terms and conditions of some of the transportation services we provide on our Pelico pipeline system and the EasTrans Limited Partnership (EasTrans) pipeline system owned by East Texas,

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are subject to FERC regulation under Section 311 of the NGPA. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest. The Pelico system is currently charging rates for its Section 311 transportation services that were deemed fair and equitable under a rate settlement with FERC. The EasTrans system is currently charging rates for its Section 311 transportation services that were deemed fair and equitable under an order approved by the Railroad Commission of Texas. In December 2006, the Pelico system filed a new Section 311 rate case with the FERC. The settlement in the rate case, which was approved on April 25, 2007, provided for an increase in the maximum transportation rate that the Pelico system can charge, to \$0.2322 per MMBtu from \$0.1965 per MMBtu, effective December 1, 2006. There were no other changes to the Pelico system's terms and conditions of service. The Black Lake pipeline system is an interstate transporter of NGLs and is subject to FERC jurisdiction under the Interstate Commerce Act and the Elkins Act.

Other state and local regulations also affect our business. Our non-proprietary gathering lines are subject to ratable take and common purchaser statutes in Louisiana. Ratable take statutes generally require gatherers to take, without undue discrimination, oil or natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes restrict our right as an owner of gathering facilities to decide with whom we contract to purchase or transport oil or natural gas. Federal law leaves any economic regulation of natural gas gathering to the states. The states in which we operate have adopted complaint-based regulation of oil and natural gas gathering activities, which allows oil and natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to oil and natural gas gathering access and rate discrimination. Other state regulations may not directly regulate our business, but may nonetheless affect the availability of natural gas for purchase, processing and sale, including state regulation of production rates and maximum daily production allowable from gas wells. While our proprietary gathering lines currently are subject to limited state regulation, there is a risk that state laws will be changed, which may give producers a stronger basis to challenge proprietary status of a line, or the rates, terms and conditions of a gathering line providing transportation service.

***Discovery's interstate tariff rates are subject to review and possible adjustment by federal regulators, which could have a material adverse effect on our business and operating results. Moreover, because Discovery is a non-corporate entity, it may be disadvantaged in calculating its cost-of-service for rate-making purposes.***

The FERC, pursuant to the Natural Gas Act, regulates many aspects of Discovery's interstate pipeline transportation service, including the rates that Discovery is permitted to charge for such service. Under the Natural Gas Act, interstate transportation rates must be just and reasonable and not unduly discriminatory. If the FERC fails to permit tariff rate increases requested by Discovery, or if the FERC lowers the tariff rates Discovery is permitted to charge its customers, on its own initiative, or as a result of challenges raised by Discovery's customers or third parties, Discovery's tariff rates may be insufficient to recover the full cost of providing interstate transportation service. The FERC could require refund by Discovery of certain amounts exceeding those rates determined by FERC to be lawful. An adverse decision by the FERC in approving Discovery's regulated rates could adversely affect our cash flows. Although the FERC generally does not regulate the natural gas gathering operations of Discovery under the Natural Gas Act, federal regulation influences the parties that gather natural gas on the Discovery gas gathering system.

Discovery's maximum regulated rate for mainline transportation is scheduled to decrease in 2008. At that time, Discovery may be required to reduce its mainline transportation rate on all of its contracts that have rates above the new maximum rate. This could reduce the revenues generated by Discovery. Discovery may elect to file a rate case with the FERC seeking to alter this scheduled maximum rate reduction. However, if filed, a rate case may not be successful in preventing all or part of the rate reduction. If Discovery makes such a filing, it is possible that other aspects of Discovery's cost-of-service and rate design could be reviewed, which could result in additional reductions to its regulated rates.

Under current policy, the FERC permits pipelines to include, in the cost-of-service used as the basis for calculating the pipeline's regulated rates, a tax allowance reflecting the actual or potential income tax liability

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on public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. In a future rate case, Discovery may be required to demonstrate the extent to which inclusion of an income tax allowance in Discovery's cost-of-service is permitted under the current income tax allowance policy.

***We may incur significant costs and liabilities in the future resulting from a failure to comply with new or existing environmental regulations or an accidental release of hazardous substances or hydrocarbons into the environment.***

Our operations are subject to stringent and complex federal, state and local environmental laws and regulations. These include, for example, (1) the federal Clean Air Act and comparable state laws and regulations that impose obligations related to air emissions; (2) the federal Resource Conservation and Recovery Act, or RCRA, and comparable state laws that impose requirements for the discharge of waste from our facilities; and (3) the Comprehensive Environmental Response Compensation and Liability Act of 1980, or CERCLA, also known as Superfund, and comparable state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent waste for disposal. Failure to comply with these laws and regulations or newly adopted laws or regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental regulations, including CERCLA and analogous state laws and regulations, impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances or hydrocarbons have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, and historical industry operations and waste disposal practices. For example, an accidental release from one of our facilities could subject us to substantial liabilities arising from environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage and fines or penalties for related violations of environmental laws or regulations. Moreover, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase our compliance costs and the cost of any remediation that may become necessary. We may not be able to recover these costs from insurance or from indemnification from DCP Midstream, LLC.

***We may incur significant costs and liabilities resulting from pipeline integrity programs and related repairs.***

Pursuant to the Pipeline Safety Improvement Act of 2002, the United States Department of Transportation, or DOT, has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas. The regulations require operators to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could impact a high consequence area;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and

implement preventive and mitigating actions.

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We currently estimate that we will incur costs of approximately \$4.1 million between 2007 and 2011 to implement pipeline integrity management program testing along certain segments of our natural gas and NGL pipelines. This does not include the costs, if any, of any repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program, which costs could be substantial. While DCP Midstream, LLC has agreed to indemnify us for our pro rata share of any capital contributions associated with certain repair costs relating to the Black Lake pipeline resulting from such testing program, the actual costs of making such repairs, including any lost cash flows resulting from shutting down our pipelines during the pendency of such repairs, could substantially exceed the amount of such indemnity.

We currently transport all of the NGLs produced at our Minden plant on the Black Lake pipeline. Accordingly, in the event that the Black Lake pipeline becomes inoperable due to any necessary repairs resulting from our integrity testing program or for any other reason for any significant period of time, we would need to transport NGLs by other means. The Minden plant has an existing alternate pipeline connection that would permit the transportation of NGLs to a local fractionator for processing and distribution with sufficient pipeline takeaway and fractionation capacity to handle all of the Minden plant's NGL production. We do not, however, currently have commercial arrangements in place with the alternative pipeline. While we believe we could establish alternate transportation arrangements, there can be no assurance that we will in fact be able to enter into such arrangements.

***Our construction of new assets may not result in revenue increases and is subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our results of operations and financial condition.***

One of the ways we intend to grow our business is through the construction of new midstream assets. The construction of additions or modifications to our existing systems or propane terminals, and the construction of new midstream assets involves numerous regulatory, environmental, political and legal uncertainties beyond our control and may require the expenditure of significant amounts of capital. If we undertake these projects, they may not be completed on schedule or at the budgeted cost, or at all. Moreover, our revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if we construct a new pipeline or terminal, the construction may occur over an extended period of time, and we will not receive any material increases in revenues until the project is completed. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which such growth does not materialize. Since we are not engaged in the exploration for and development of natural gas and oil reserves, we often do not have access to third-party estimates of potential reserves in an area prior to constructing facilities in such area. To the extent we rely on estimates of future production in our decision to construct additions to our systems, such estimates may prove to be inaccurate because there are numerous uncertainties inherent in estimating quantities of future production. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition. In addition, the construction of additions to our existing gathering, transportation and propane terminal assets may require us to obtain new rights-of-way prior to constructing new facilities. We may be unable to obtain such rights-of-way to connect new natural gas supplies to our existing gathering lines, expand our network of propane terminals, or capitalize on other attractive expansion opportunities. Additionally, it may become more expensive for us to obtain new rights-of-way or to renew existing rights-of-way. In addition, the construction of additional propane terminals may require greater capital investment if the commodity prices of certain supplies such as steel increase. If the cost of renewing or obtaining new rights-of-way increases, or the cost of constructing new facilities is impacted by certain commodity prices, our cash flows could be adversely affected.

***If we do not make acquisitions on economically acceptable terms, our future growth will be limited.***

Our ability to grow depends, in part, on our ability to make acquisitions that result in an increase in the cash generated from operations per unit. If we are unable to make these accretive acquisitions either because we are: (1) unable to



identify attractive acquisition candidates or negotiate acceptable purchase contracts with them; (2) unable to obtain financing for these acquisitions on economically acceptable terms; or (3) outbid by

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competitors, then our future growth and ability to increase distributions will be limited. Furthermore, even if we do make acquisitions that we believe will be accretive, these acquisitions may nevertheless result in a decrease in the cash generated from operations per unit. Additionally, net assets contributed by DCP Midstream, LLC represent a transfer of net assets between entities under common control, and are recognized at DCP Midstream, LLC's basis in the net assets transferred. The amount of the purchase price in excess of DCP Midstream, LLC's basis in the net assets, if any, is recognized as a reduction to partners' equity. Contributions from DCP Midstream, LLC may significantly increase our debt to capitalization ratios.

Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about volumes, revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management's and employees' attention from other business concerns;
- change in competitive landscape;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of energy assets by industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

***We do not own all of the land on which our pipelines, facilities and rail terminals are located, which could disrupt our operations.***

We do not own all of the land on which our pipelines, facilities and rail terminals have been constructed, and we are therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if we do not have valid rights of way or if such rights of way lapse or terminate. We obtain the rights to construct and operate our pipelines, surface sites and rail terminals on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to you.

***Our business involves many hazards and operational risks, some of which may not be fully covered by insurance. If a significant accident or event occurs that is not fully insured, our operations and financial results could be***

*adversely affected.*

Our operations are subject to many hazards inherent in the gathering, compressing, treating, processing and transporting of natural gas, propane and NGLs, and the storage of propane, including:

damage to pipelines, plants and terminals, related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters and acts of terrorism;

inadvertent damage from construction, farm and utility equipment;

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leaks of natural gas, propane, NGLs and other hydrocarbons or losses of natural gas, propane or NGLs as a result of the malfunction of equipment or facilities;

contaminants in the pipeline system;

fires and explosions; and

other hazards that could also result in personal injury and loss of life, pollution and suspension of operations.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. A natural disaster or other hazard affecting the areas in which we operate could have a material adverse effect on our operations. We are not fully insured against all risks inherent to our business. In accordance with typical industry practice, we do not have any property insurance on any of our underground pipeline systems that would cover damage to the pipelines. We are not insured against all environmental accidents that might occur, which may include toxic tort claims, other than those considered to be sudden and accidental. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition. In addition, we may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage.

***Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.***

On June 21, 2007, we entered into an Amended and Restated Credit Agreement, or the Amended Credit Agreement, consisting of a \$600.0 million revolving credit facility and a \$250.0 million term loan facility for working capital and other general corporate purposes. As of December 31, 2007, the outstanding balance on the revolving credit facility was \$530.0 million and the outstanding balance on the term loan facility was \$100.0 million.

We continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a portion of our cash flow to make interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

our debt level will make us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to obtain new debt funding or service our existing debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. In addition, our ability to service debt under our revolving credit facility will depend on market interest rates, since we anticipate that the interest rates

applicable to our borrowings will fluctuate with movements in interest rate markets. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms, or at all. During 2006 we entered into

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interest rate swap agreements to convert \$125.0 million of the indebtedness outstanding on our revolving credit facility to a fixed rate obligation. During 2007 we entered into interest rate swap agreements to convert \$200.0 million of the indebtedness outstanding on our revolving credit facility to a fixed rate obligation.

***Restrictions in our credit facility will limit our ability to make distributions to you and may limit our ability to capitalize on acquisitions and other business opportunities.***

Our credit facility contains covenants limiting our ability to make distributions, incur indebtedness, grant liens, make acquisitions, investments or dispositions and engage in transactions with affiliates. Furthermore, our credit facility contains covenants requiring us to maintain certain financial ratios and tests. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions.

***Increases in interest rates could adversely impact our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.***

Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by the level of our cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank related yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.

***Due to our lack of industry and geographic diversification, adverse developments in our midstream operations or operating areas would reduce our ability to make distributions to our unitholders.***

We rely on the cash flow generated from our midstream energy businesses, and as a result, our financial condition depends upon prices of, and continued demand for, natural gas, propane, condensate and NGLs. Due to our lack of diversification in industry type and location, an adverse development in one of these businesses or operating areas would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

***We are exposed to the credit risks of our key producer customers and propane purchasers, and any material nonpayment or nonperformance by our key producer customers or our propane purchasers could reduce our ability to make distributions to our unitholders.***

We are subject to risks of loss resulting from nonpayment or nonperformance by our producer customers and propane purchasers. Any material nonpayment or nonperformance by our key producer customers or our propane purchasers could reduce our ability to make distributions to our unitholders. Furthermore, some of our producer customers or our propane purchasers may be highly leveraged and subject to their own operating and regulatory risks, which could increase the risk that they may default on their obligations to us.

***Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact our results of operations.***

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001 or the attacks in London, and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained

military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies, propane shipments or storage facilities, and markets for refined products, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more

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expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

**Risks Inherent in an Investment in Our Common Units**

*DCP Midstream, LLC controls our general partner, which has sole responsibility for conducting our business and managing our operations. DCP Midstream, LLC has conflicts of interest, which may permit it to favor its own interests to your detriment.*

DCP Midstream, LLC owns and controls our general partner. Some of our general partner's directors, and some of its executive officers, are directors or officers of DCP Midstream, LLC or its parents. Therefore, conflicts of interest may arise between DCP Midstream, LLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

neither our partnership agreement nor any other agreement requires DCP Midstream, LLC to pursue a business strategy that favors us. DCP Midstream, LLC's directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of DCP Midstream, LLC, which may be contrary to our interests;

our general partner is allowed to take into account the interests of parties other than us, such as DCP Midstream, LLC and its affiliates, in resolving conflicts of interest;

DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, are not limited in their ability to compete with us. Please read DCP Midstream, LLC and its affiliates are not limited in their ability to compete with us below;

our general partner may make a determination to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the special committee of our general partner or our unitholders;

some officers of DCP Midstream, LLC who provide services to us also will devote significant time to the business of DCP Midstream, LLC, and will be compensated by DCP Midstream, LLC for the services rendered to it;

our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;



our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

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our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

***DCP Midstream, LLC and its affiliates are not limited in their ability to compete with us, which could cause conflicts of interest and limit our ability to acquire additional assets or businesses, which in turn could adversely affect our results of operations and cash available for distribution to our unitholders.***

Neither our partnership agreement nor the Omnibus Agreement, as amended, between us, DCP Midstream, LLC and others will prohibit DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, DCP Midstream, LLC and its affiliates, including Spectra Energy and ConocoPhillips, may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Each of these entities is a large, established participant in the midstream energy business, and each has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with these entities with respect to commercial activities as well as for acquisition candidates. As a result, competition from these entities could adversely impact our results of operations and cash available for distribution.

***Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner, will be substantial and will reduce our cash available for distribution to you.***

Pursuant to the Omnibus Agreement, as amended, we entered into with DCP Midstream, LLC, our general partner and others, DCP Midstream, LLC will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit. Payments for these services will be substantial and will reduce the amount of cash available for distribution to unitholders. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated to reimburse or indemnify it. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments could reduce the amount of cash otherwise available for distribution to our unitholders.

***Our partnership agreement limits our general partner's fiduciary duties to holders of our common units and subordinated units.***

Although our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to its owner, DCP Midstream, LLC. Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty laws. For example, our partnership agreement permits our general partner to make a number of decisions either in its individual capacity, as opposed to in its capacity as our general partner or otherwise free of fiduciary duties to us and our unitholders. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include:

the exercise of its right to reset the target distribution levels of its incentive distribution rights at higher levels and receive, in connection with this reset, a number of Class B units that are convertible at any time following the first anniversary of the issuance of these Class B units into common units;

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its limited call right;

its voting rights with respect to the units it owns;

its registration rights; and

its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

By purchasing a common unit, a common unitholder will agree to become bound by the provisions in the partnership agreement, including the provisions discussed above.

***Our partnership agreement restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.***

Our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty. For example, our partnership agreement:

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the special committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal.

***Our general partner may elect to cause us to issue Class B units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the special committee of our general partner or holders of our common units and subordinated units. This may result in lower distributions to holders of our common units in certain situations.***

Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly

distribution ) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount.

In connection with resetting these target distribution levels, our general partner will be entitled to receive a number of Class B units. The Class B units will be entitled to the same cash distributions per unit as our common units and will be convertible into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions

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or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that our general partner could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our Class B units, which are entitled to receive cash distributions from us on the same priority as our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued new Class B units to our general partner in connection with resetting the target distribution levels related to our general partner incentive distribution rights.

### ***Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.***

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders will not elect our general partner or its board of directors, and will have no right to elect our general partner or its board of directors on an annual or other continuing basis. The board of directors of our general partner will be chosen by the members of our general partner. Furthermore, if the unitholders were dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

### ***Even if holders of our common units are dissatisfied, they may be unable to remove our general partner without its consent.***

The unitholders may be unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 $\frac{2}{3}$ % of all outstanding units voting together as a single class is required to remove the general partner. As of December 31, 2007, our general partner and its affiliates owned approximately 34.4% of our aggregate outstanding common and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholder's dissatisfaction with our general partner's performance in managing our partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

### ***Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.***

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.



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***If we are deemed an investment company under the Investment Company Act of 1940, it would adversely affect the price of our common units and could have a material adverse effect on our business.***

Our current assets include a 25% interest in East Texas, a 40% interest in Discovery, a 45% interest in Black Lake and investments in certain commercial paper and other high grade debt securities, some or all of which may be deemed to be investment securities within the meaning of the Investment Company Act of 1940. If a sufficient amount of our assets are deemed to be investment securities within the meaning of the Investment Company Act, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the Commission or modify our organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, materially limit our ability to engage in transactions with affiliates, including the purchase and sale of certain securities or other property to or from our affiliates, restrict our ability to borrow funds or engage in other transactions involving leverage and require us to add additional directors who are independent of us or our affiliates. The occurrence of some or all of these events would adversely affect the price of our common units and could have a material adverse effect on our business.

Moreover, treatment of us as an investment company would prevent our qualification as a partnership for federal income tax purposes in which case we would be treated as a corporation for federal income tax purposes. As a result, we would pay federal income tax on our taxable income at the corporate tax rate, distributions to you would generally be taxed again as corporate distributions and none of our income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as an investment company would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units. For a discussion of the federal income tax implications if we were treated as a corporation in any taxable year, please read **Material Tax Consequences** **Partnership Status**.

Additionally, as a result of our desire to avoid having to register as an investment company under the Investment Company Act, we may have to forego potential future acquisitions of interests in companies that may be deemed to be investment securities within the meaning of the Investment Company Act or dispose of our current interests in East Texas, Discovery or Black Lake.

***Control of our general partner may be transferred to a third party without unitholder consent.***

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the owners of our general partner from transferring all or a portion of their respective ownership interest in our general partner to a third party. The new owners of our general partner would then be in a position to replace the board of directors and officers of the general partner with its own choices and thereby influence the decisions taken by the board of directors and officers.

***We may issue additional units without your approval, which would dilute your existing ownership interests.***

Our partnership agreement does not limit the number of additional limited partner interests that we may issue at any time without the approval of our unitholders. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

our unitholders' proportionate ownership interest in us will decrease;

the amount of cash available for distribution on each unit may decrease;



because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

the ratio of taxable income to distributions may increase;

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the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

***Affiliates of our general partner may sell common units in the public or private markets, which sales could have an adverse impact on the trading price of the common units.***

As of December 31, 2007, DCP Midstream, LLC and its affiliates hold an aggregate of 1,103,594 common units and 7,142,857 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period, as set forth in our partnership agreement, and some may convert earlier. The sale of any of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

***Our general partner has a limited call right that may require you to sell your units at an undesirable time or price.***

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units.

***The liability of holders of limited partner interests may not be limited if a court finds that unitholder action constitutes control of our business.***

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. Holders of limited partner interests could be liable for any and all of our obligations as if such holder were a general partner if:

a court or government agency determined that we were conducting business in a state but had not complied with that particular state's partnership statute; or

the right of holders of limited partner interests to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

***Unitholders may have liability to repay distributions that were wrongfully distributed to them.***

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on

account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

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### **Tax Risks to Common Unitholders**

***Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service treats us as a corporation or we become subject to a material amount of additional entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to our unitholders.***

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service, which we refer to as the IRS, on this or any other tax matter affecting us.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based upon our current operations that we are so treated, a change in our business (or a change in current law) could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions to the unitholder would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to them. Because a tax would be imposed upon us as a corporation, our cash available for distribution to the unitholder would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. For example, at the federal level, legislation has been proposed that would eliminate partnership tax treatment for certain publicly traded partnerships. Although such legislation would not apply to us as currently proposed, it could be amended prior to enactment in a manner that does apply to us. We are unable to predict whether any of these changes, or other proposals will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Specifically, beginning in 2008, we will be required to pay Texas franchise tax at a maximum effective rate of 0.7% of our gross income apportioned to Texas in the prior year. Imposition of such a tax on us by Texas and, if applicable, by any other state will reduce, the cash available for distribution to the unitholder. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution levels will be adjusted to reflect the impact of that law on us.

***The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.***

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress are considering substantive changes to the existing federal income tax laws that affect certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although the currently proposed legislation would not appear to affect our tax treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will ultimately be enacted.

Any such changes could negatively impact the value of an investment in our common units.

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***If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, and the cost of any IRS contest will reduce our cash available for distribution to our unitholders.***

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not agree with some or all of our counsel's conclusions or positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

***The unitholder may be required to pay taxes on income from us even if the unitholder does not receive any cash distributions from us.***

Because our unitholders will be treated as partners to whom we will allocate taxable income, which could be different in amount than the cash we distribute, the unitholder will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. The unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the tax liability that results from that income.

***Tax gain or loss on disposition of common units could be more or less than expected.***

If the unitholder sells their common units, they will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those common units. Because distributions to the unitholders in excess of the total net taxable income allocated to them for a common unit decreases their tax basis in that common unit, the amount, if any, of such prior excess distributions will, in effect, become taxable income to them if the common unit is sold at a price greater than their tax basis in that common unit, even if the price is less than their original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if the unitholder sells their units, they may incur a tax liability in excess of the amount of cash they receive from the sale. Please read **Material Tax Consequences** **Disposition of Common Units** **Recognition of Gain or Loss** for a further discussion of the foregoing.

***Tax-exempt entities and non-U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), other retirement plans and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income. If the unitholder is a tax-exempt entity or a non-U.S. person, they should consult their tax advisor before investing in our common units.

***We will treat each purchaser of our common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.***

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits

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available to the unitholder. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please read **Material Tax Consequences – Tax Consequences of Unit Ownership – Section 754 Election** for a further discussion of the effect of the depreciation and amortization positions we adopted.

***We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.***

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this prorate