



Master Limited Partnerships

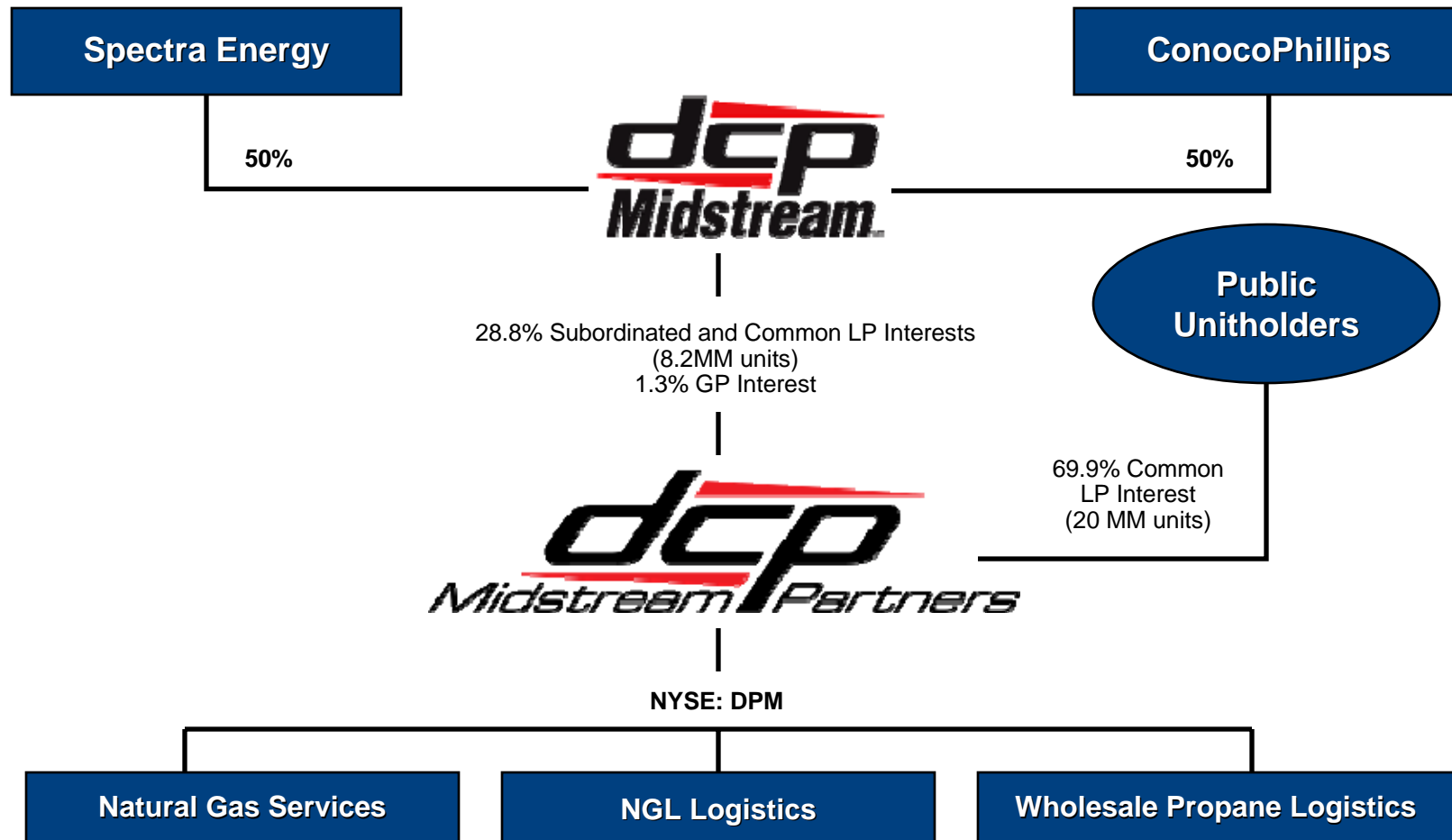
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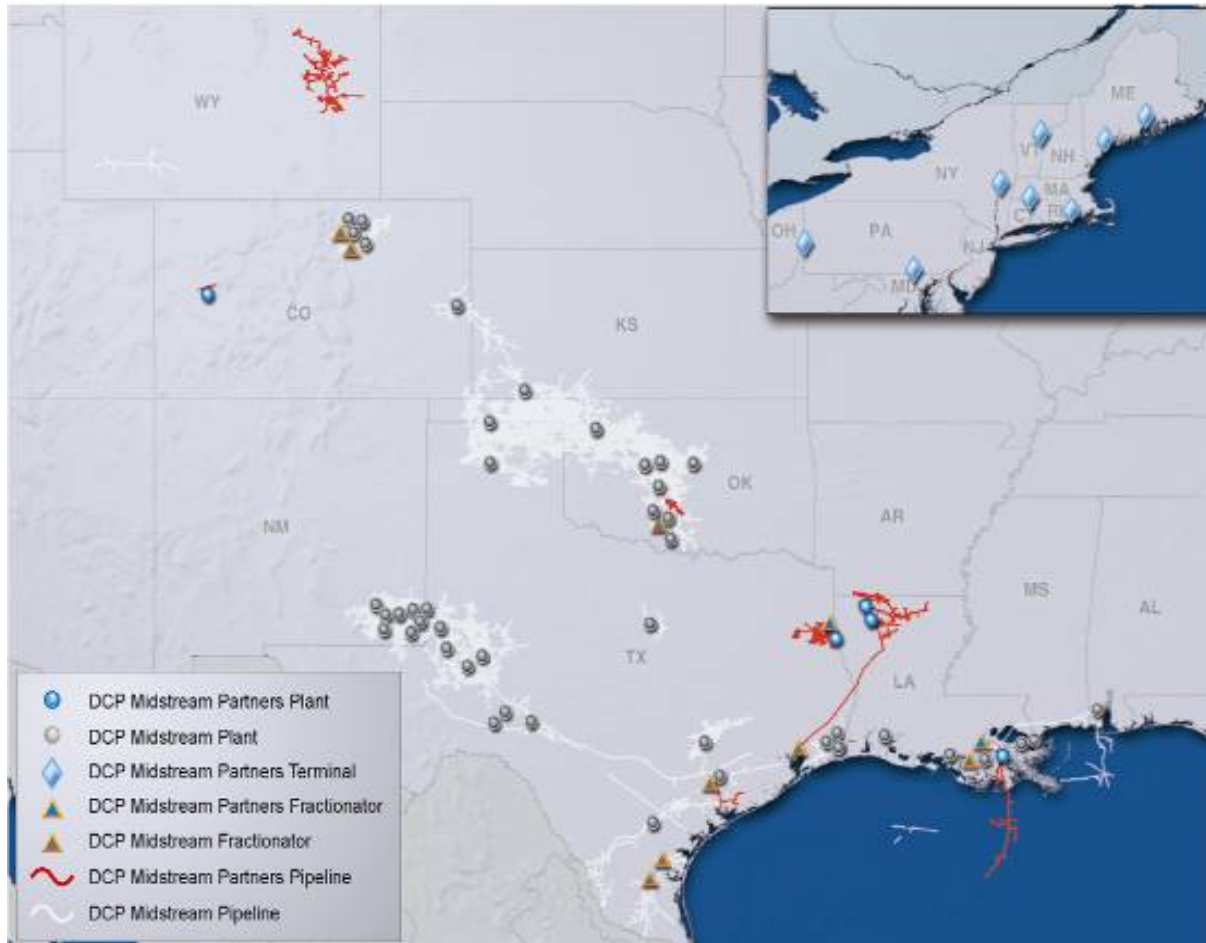
April 11, 2008

DCP Midstream Partners, LP and Sponsors



DCP Midstream

Industry leading midstream business



- One of the nation's largest natural gas gatherers and producers & marketers of NGLs
- 54 owned or operated plants, 10 fractionators and 58,000 miles of pipe
- 2007 net income in excess of \$1 billion
- Total assets in excess of \$8 billion

WHAT IS A MASTER LIMITED PARTNERSHIP?

Master Limited Partnership Basics

- What is a publicly traded master limited partnership (MLP)?
 - Structured like a typical limited partnership with a general partner and limited partners
 - General partner (GP) manages partnership operations
 - Limited partnership (LP) interests traded on a public exchange such as NYSE and NASDAQ
 - Typically pay out bulk of operating cash flow as distributions (not dividends) to LPs and GP
 - Distributions paid quarterly
 - Aim to grow cash distributions over time
 - Taxation differs from other securities
 - No taxes paid at corporate level
 - Distributions to LP unitholders substantially tax deferred
 - Generally high-yielding (average MLP yield of 7.5%*)

A Little MLP History...

- 1980s
 - MLPs formed in the 1980s were in more cyclical/volatile businesses (E&Ps with depleting assets); failed when oil & gas prices declined
- 1986
 - Modern MLP got its start in the Tax Reform Act of 1986 which allowed publicly traded partnerships to take advantage of certain tax shelters
- 1987
 - Revenue Act of 1987 required partnerships to earn income from specific sources of “qualifying income”
- 1990s
 - MLPs were reincarnated as entities with stable income owning midstream assets that transport, process and store natural gas, crude oil and their products, with limited commodity exposure
- 1996
 - MLPs began reorienting focus to growth; relying on tax advantaged lower cost of capital and emphasis on growing the distribution
- 2004
 - Under the American Jobs Creation Act in 2004, mutual funds can own MLPs

Investing in US Energy Infrastructure

- Primary usage: MLP's are tax-advantaged vehicles to encourage investment in domestic energy infrastructure
- What can MLPs own?
 - To qualify for MLP status, partnerships must meet Internal Revenue Code Sec. 7704 “qualifying income” requirements
 - *A partnership meets the gross income requirements...if 90 percent or more of the gross income...consists of **qualifying income***
 - *The term “qualifying income” means (A) interest, (B) dividends, (C) real property rents, (D) gain from the sale or other disposition of real property..., **(E) income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber),***
 - (F) any gain from the sale or disposition of a capital asset...held for the production of income described in any of the foregoing subparagraphs of this paragraph, and (G)...income and gains from commodities...or futures, forwards, and options with respect to commodities*

What Energy/Natural Resource Assets Qualify for MLP Consideration?



Upstream

- Oil Reserves
- Natural Gas Reserves
- Coal Reserves
- Other Exhaustible Ground Mineral and Natural Resources
- Drilling Platforms
- Drilling Rigs
- Other E&P Assets Used to Extract Exhaustible Ground Mineral and Natural Resources

Midstream

- Interstate Oil and Natural Gas Pipelines
- Intrastate Oil and Natural Gas Pipelines
- Petroleum Product Pipelines
- Gas gathering and processing assets
- Facilities for Gas Compression, Treating, Fractionation, etc.
- Commodity Storage Facilities
- Compressor Stations
- Coal Preparation and Transloading Facilities
- LNG Tankers and Carriers
- LNG Regasification Facilities

Downstream

- Transportation to “Bulk Distribution Centers” such as a terminal or refinery by:
 - Rail Cars
 - Refineries
 - Trucks and Trailers
 - Barges and Tugboats
 - Propane Delivery and Service Vehicles

Other

- Timber
- Geothermal Energy Sources
- Fertilizer
- Nitrogen and Sulfur product Manufacturing Plants

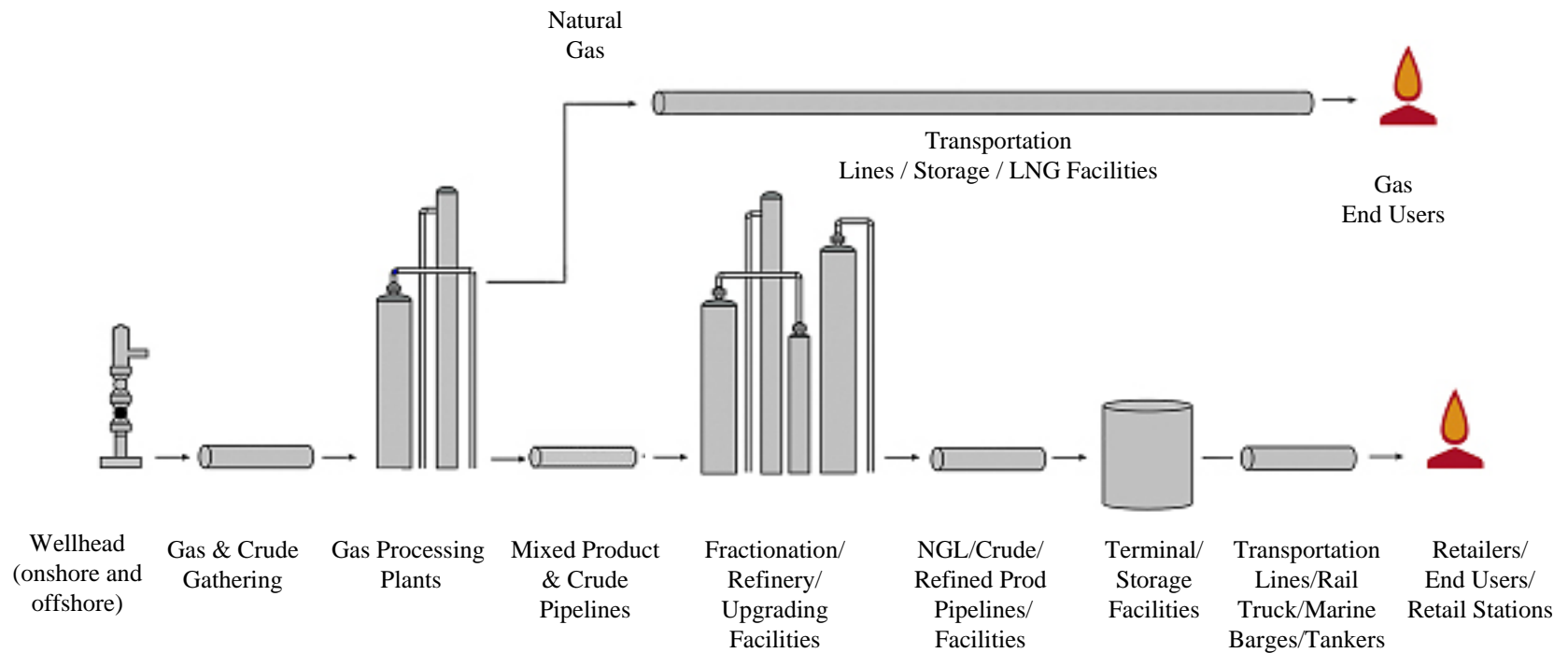
MLP Business Fundamentals

- Predominantly operate in the midstream energy sector, although areas are expanding
 - Transportation (pipelines), storage (terminals) and other handling of natural gas, crude oil and refined products
- Generally lack direct commodity exposure
 - Most MLPs have indirect commodity exposure
 - Commodity exposure varies by MLP
 - Risk management is key to manage commodity exposure
- Stable cash flows supported by fee-based activities
- Long-lived assets
- Almost wholly US-based
- Assets can be regulated
- Lower cost of capital because of tax advantages permits MLPs to acquire and build assets more competitively than corporations

Services Across Much of the Natural Gas Value Chain



- Stable cash flows from fee- and margin-based businesses; long-term contracts and customer relationships
- Hedges eliminate most commodity price exposure



LEGAL AND TAX STRUCTURE

MLPs vs. Corporations

	MLPs	Corporations
Security type	Units	Shares
Taxation level	Unitholder	Corporate & Shareholder
Tax filing	K-1s	1099s
Payments	Distributions	Dividends
Tax treatment	80-90% tax deferred	15%
Investor base	Retail	Institutional
General Partner	Yes	No
Corporate governance	Limited Control	Elect Directors

LP vs. GP

- Limited partners (LP) vs. general partners (GP)

Limited Partners

- Have a passive interest in the partnership
- Entitled to cash distributions
- Provide the equity capital necessary to grow the partnership
 - Existing LP unitholders not subject to a cash call
- Limited voting rights

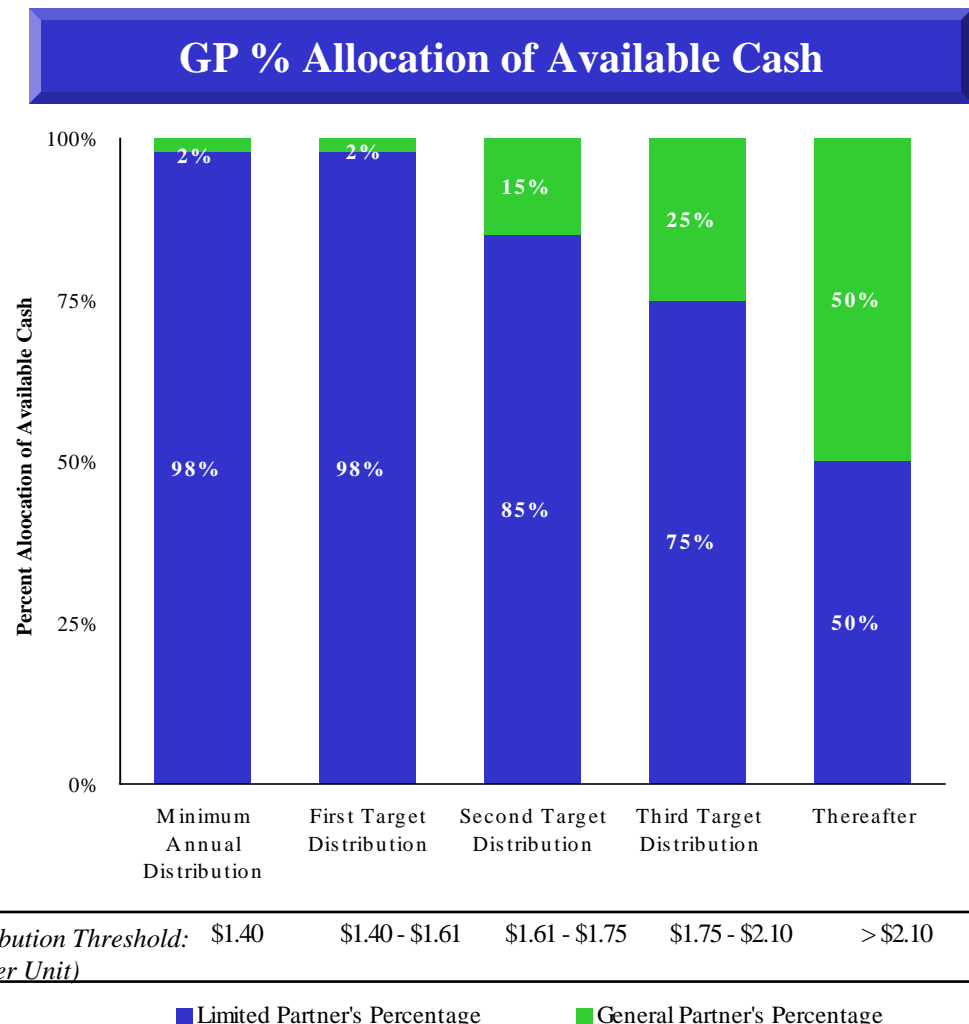
General Partners

- Responsible for the management and operations of the partnership
 - Public company board of directors
- Own incentive distribution rights (IDRs)
- MLP board of directors at GP level

Relationship between GP and LP is governed by the partnership agreement

The GP/LP Relationship and IDRs

- Since MLPs are partnerships
 - The GP is responsible for managing the assets and operations of the MLP
 - LPs provide capital, but have no management role
- GP's primary objective is to raise distributions to LPs
- In order to provide incentive to the GP to raise distributions to LPs, the GP is entitled to incentive distribution rights ("IDRs" and also known as "high splits") if it is able to increase distributions
 - The cash paid to the GP becomes a larger portion of the incremental distribution, as certain target levels are met, while maintaining just its 2% GP interest



Governance

- MLP Governance
 - Board of Directors may be majority of insiders
 - Audit Committee must still have at least 3 independent directors
 - No proxy statement and annual meeting
 - LPs have limited voting rights – only extraordinary situations such as:
 - Sale of substantially all of assets
 - Removal of the GP
 - Amendments to the Partnership Agreement
 - Conflicts of interests between MLP and Sponsor handled by:
 - Vote of Unitholders
 - Approval by Conflicts Committee
 - Fair and Reasonable
 - Equivalent to third party arms length transaction

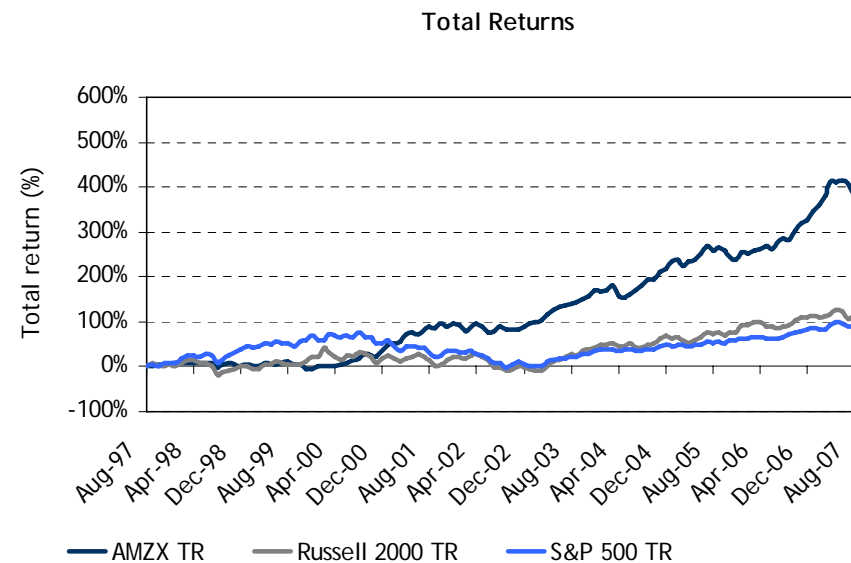
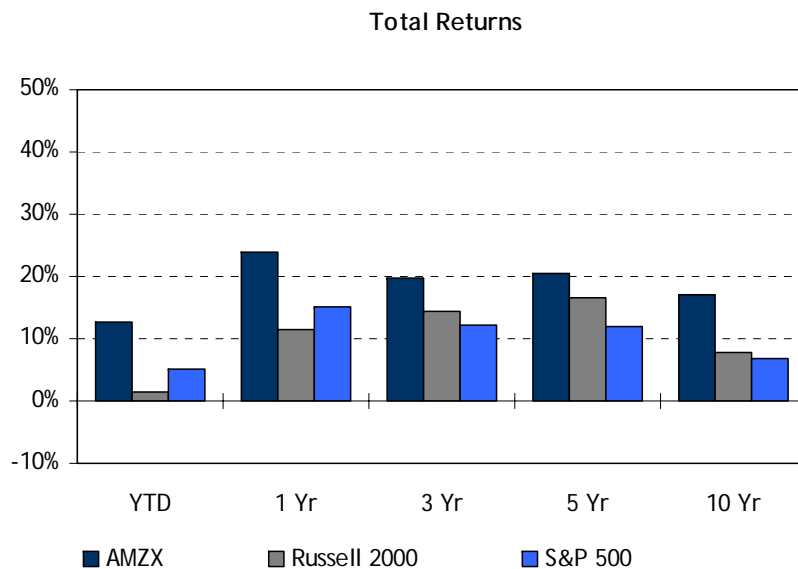
Taxation

- MLP Taxation
 - MLPs don't pay corporate taxes
 - No tax on distributions versus tax on dividends for a corporation
 - MLP distribution is considered a return of capital and is tax deferred
 - Upon a sale of MLP units, return of capital is converted into a capital gain and taxed at long term capital gains rate
 - Investor pays taxes on share of partnership income (most MLPs pay cash distributions in excess of taxes owed)
 - Income in the states where MLP operates are also allocated to the LPs

PERFORMANCE & GROWTH

MLPs vs. Broad Equity Indices

- Strong performance track record vs. the equity market
 - MLPs have outperformed the S&P 500 and Russell 2000 over the past 10 years



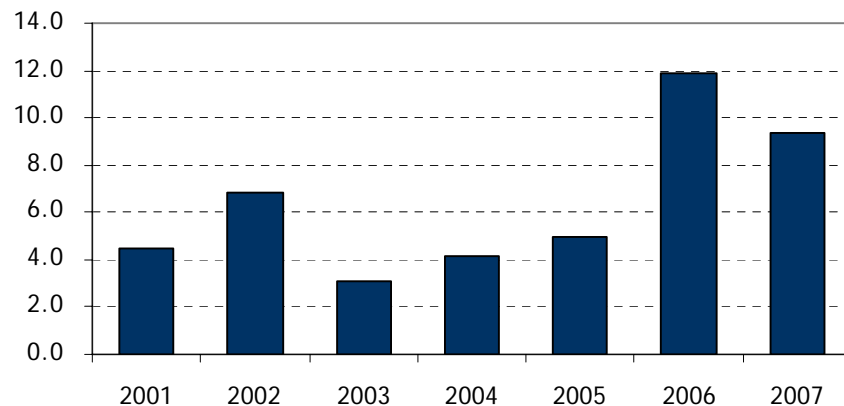
Source: Factset, Merrill Lynch analysis
Total returns as of 31 August 2007

Source: Merrill Lynch research

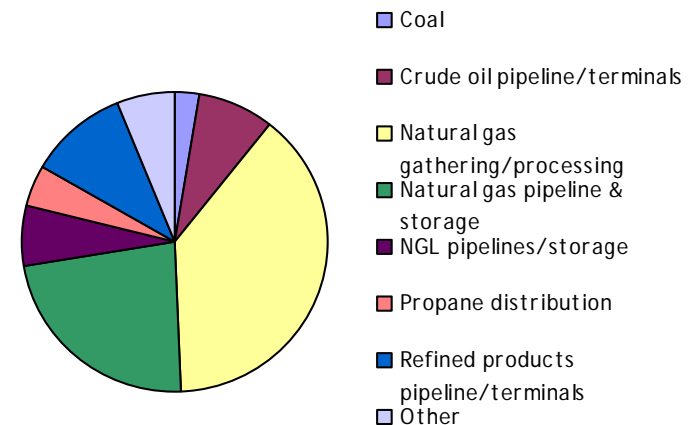
Historical Growth Drivers

- Tax efficient vehicle for energy asset ownership
- Higher valuations than corporate structures
- Lower cost of capital facilitates growth

MLP acquisitions (\$bn)



\$39bn+ in MLP acquisitions since 2001

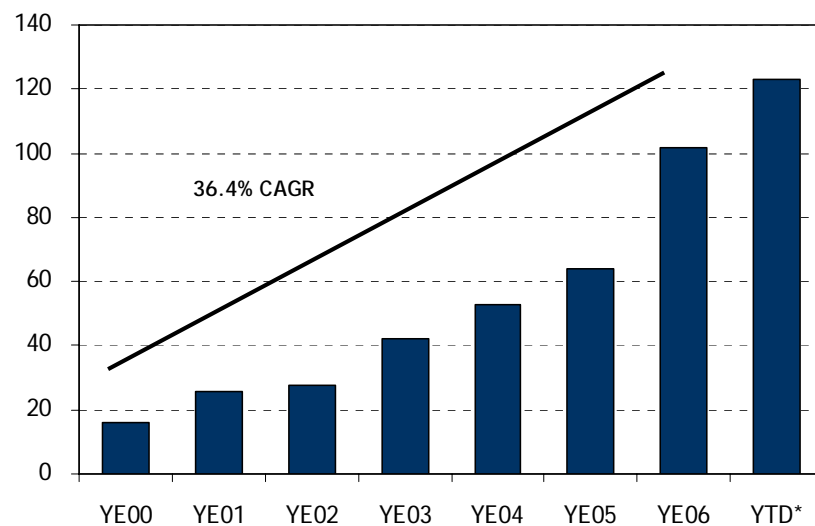


Source: Merrill Lynch analysis
 As of 31 August 2007
 *Note: Excludes inter-MLP transactions

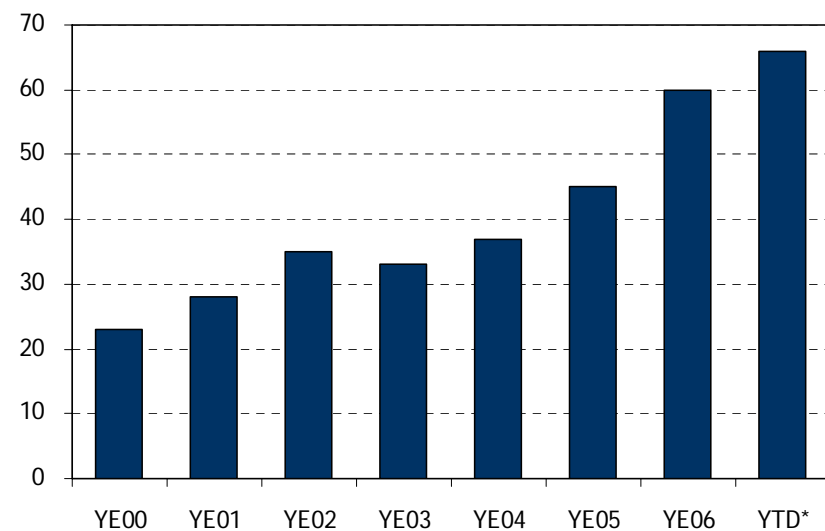
Recent Trends: MLP Proliferation

- MLP sector is growing in size and number
 - Aggregate MLP market cap has more than doubled in past five years
 - Since 2000, number of energy MLPs has grown from 23 to over 90

Energy MLP market capitalization (\$bn)



Number of energy MLPs



Source: Alerian MLP Index, National Association of Publicly Traded Partnerships' website: (www.naptp.org)

*As of 31 August 2007

Source: Merrill Lynch research

A Few Names You Might Recognize



CROSSTEX
ENERGY SERVICES



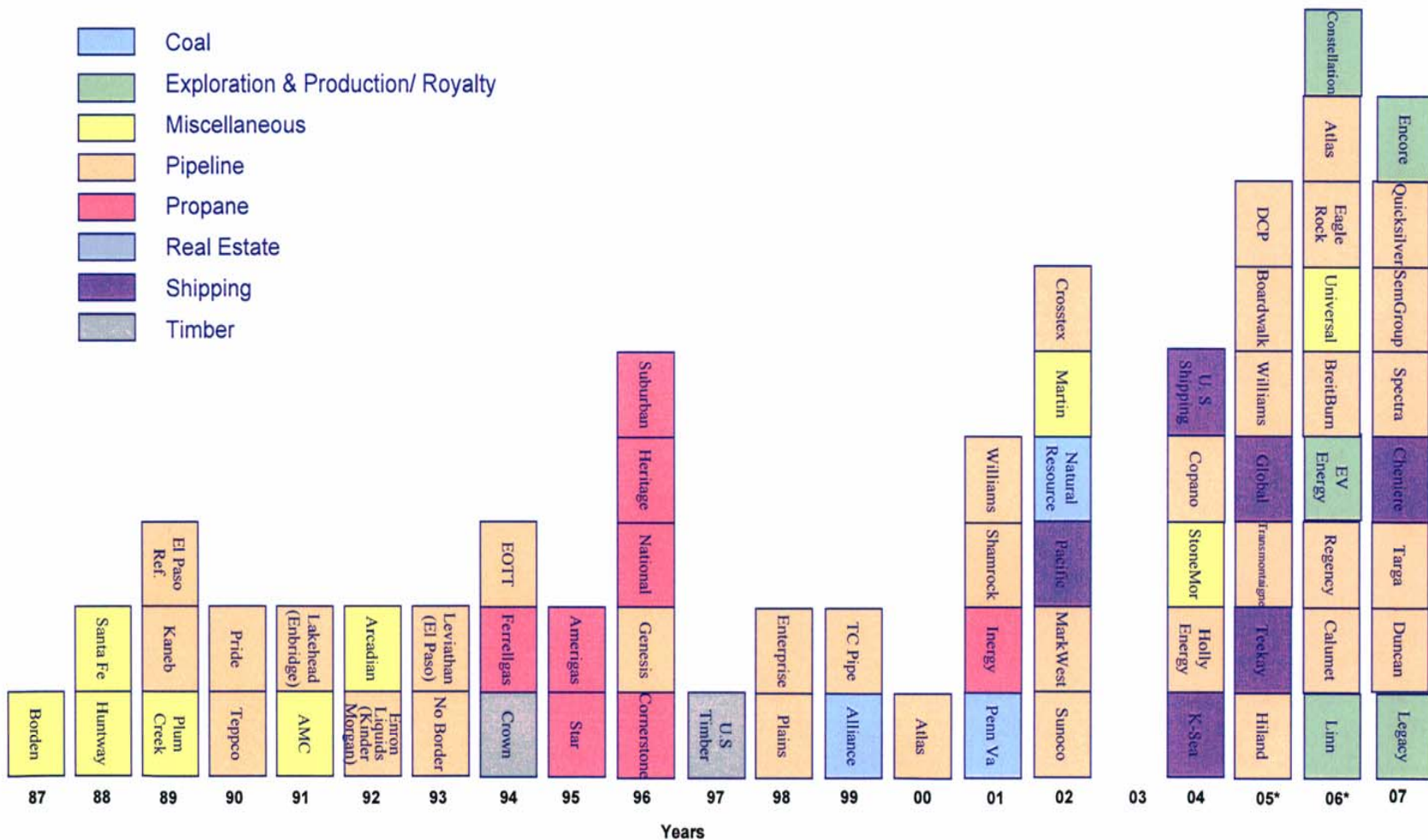
ENERGY TRANSFER



TRANSMONTAIGNE PARTNER



MLPs Expanding in Scope



•Excludes Inergy Holdings and Enterprise GP Holdings in 2005 and Energy Transfer Equity, Magellan Midstream Holdings, Alliance Holdings GP, Atlas Pipeline Holdings, Valero GP Holdings, Buckeye GP Holdings, Hiland Holdings GP and Penn Virginia GP Holdings in 2006
 Courtesy: Vinson & Elkins

View from Wall Street

- Important metrics in valuation analysis: MLP differentiation
 - Commodity sensitivity
 - Asset base durability/diversity
 - General Partner
 - Asset dowry (“drop downs”)
 - Incentive Distribution Rights (IDRs)
 - Financial Profile
 - Fixed/floating debt
 - Cash distribution coverage ratio
 - Management
 - Acquisition/growth capex track record



MLP GROWTH STRATEGIES

Typical MLP Growth Strategies

Strategies

Optimize:

- Maximize profitability of existing assets
 - Increase capacity utilization
 - Enhance operating efficiencies
 - Leverage ability to provide integrated services

Build:

- Capitalize on organic expansion opportunities
 - Expand existing infrastructure
 - Develop projects in new areas

Acquire:

- Pursue strategic and accretive acquisitions
 - Expand existing infrastructure
 - Develop projects in new areas

Drop Down:

- Acquire from Sponsor as needed
 - Sponsors retain strategic control
 - Continued cash flow to Sponsors

Growth via 3rd Party Acquisitions & Organic Construction



Opportunity to acquire strategic assets with competitive cost of capital and third party funding

- Funded via debt and equity markets
- GP retains control of acquired/constructed assets
- Sponsors receive benefit of General Partner / Limited Partner cash flows (including growth of GP IDRs)
- MLP structure provides competitive cost of debt and equity
 - Tax advantageous structure
 - Aggressive fixed income market
 - Lower yield and early phase of IDRs provides low cost of equity
- At DCP we have IDR reset option to help MLP continue to grow after reaching high splits

Growth via Sponsor “Drop down”

“Drop down” (asset sale from Sponsor to MLP for cash) transaction provides immediate and continued benefits

- Retain control of assets
- Immediate monetization of assets
- Retained economic interest through ownership of common and subordinated units, and general partner interest
- Inherent conflict of interest so valuation is considered by a conflicts committee
 - conflicts committee review
 - Conflicts committee may retain financial advisors (fairness opinion) or separate legal counsel
- Sponsors able to retain strategic control through GP ownership or direct operatorship
- MLP benefits by avoiding competitive auction processes and achieves its business objective of growing distributable cash flow
- GP IDR benefit to Sponsor

CONCLUSION

Summary of the MLP Structure

What is an MLP?

- A master limited partnership (“MLP”) is a publicly traded partnership formed to own and operate natural resource assets
- 90% of income must be from qualifying assets under § 7704 of the U.S. Internal Revenue Code
- “Qualified Income” is derived from the exploration, development, mining or production, processing, refining, transportation or marketing of any mineral or natural resource
- Structure includes a general partner (“GP”), which controls the partnership, and limited partners (“LPs”)

What is Unique about an MLP?

- Distributes substantially all cash on a quarterly basis to partners
- Tax deferral benefit to public limited partner investors
- Predominantly retail-held securities
- Mainly comprised of midstream and propane partnerships but expanding into new areas
- Trades on yield ($\frac{\text{Unit Distribution}}{\text{Unit Price}}$) and potential for growth

What are the Benefits of an MLP?

- Ability for sponsor of MLP to benefit from incentive distributions rights (“IDRs”)
- Tax efficiency – flow through entity with no corporate taxes
- Premium valuation relative to C-Corps due to tax efficient structure
- Well-developed retail investor base

What are an MLP Investor’s Expectations?

- Stability / growth of distributable cash flow
- Ability to consistently meet distribution targets
- Both organic and acquisition driven growth
- Tax deferral on distributions to public LPs

**GLOSSARY
OF
MLP TERMS**

MLP Glossary

Cash Available to Limited Partners (also known as distributable cash): This is calculated as net income plus depreciation and other non-cash items, less maintenance capital expenditure requirements, and less the general partner's incentive distribution payment.

Cash Distributed to Limited Partners (also known as distributions): Quarterly distribution payments made to limited partner investors. These amounts are set by the general partner and are typically supported by an MLP's operating cash flows.

Coverage Ratio: Calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make distribution payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are generally able to meet their distribution payments without external financing.

General Partner (GP): Corporate sponsor that typically owns a 2% interest in the MLP. Through this 2% interest, the GP has the responsibility for the operations and maintenance of the MLP and the authority to make decisions. To align the interests of the GP with the limited partners, MLPs have an incentive distribution schedule that rewards the GP for increasing the cash distributions to the limited partners.

High Splits: Increases in cash distributions entitle the general partner to a higher percentage of the incremental distributed cash flows. The high splits specifically refer to the levels of increased cash distributions on the incentive schedule that give the general partner a larger percentage of the incremental dollars.

Limited Partner (LP): Owners of the limited partner units that are entitled to receive the majority of the cash flows generated by the partnership through a quarterly distribution.

MLP Glossary

K-1 Statement: This is the form that an MLP investor receives each year from the partnerships that shows the investor's share of the partnership's income, gain, loss, deductions, and credits. The K-1 is similar to a Form 1099 that is received from a corporation. The investor will pay tax on the portion of net income that is allocated at his or her individual tax rate. Net income is calculated as the cash distribution less any deductions and credits like depreciation.

PTP: or "Publicly Traded Partnership" is a master limited partnership or a limited liability company that has chosen to be taxed as a partnership, which is publicly traded. There are over 90 publicly traded partnerships and the majority are involved in energy-related activities. Energy related PTP's comprise approximately 84% of total PTP market cap.

Qualifying Income: In order to be taxed as a partnership, 90 percent of a PTP's income must be "qualifying income" every year that it is a publicly traded partnership. Qualifying income can include **1)** interest **2)** dividends **3)** real property rents **4)** gains from the sale or other disposition of real estate **5)** income and gains from the exploration, development, mining, or production, processing, refining, transportation, or marketing of any mineral or natural resource **6)** Any gain from selling or disposing of a capital asset held for the production of any of the types of income in numbers 1-5 **7)** Income and gains from commodities, if buying and selling commodities is the PTP's principal activity **8)** Any income that would be qualifying income for a regulated investment company (RIC) or real estate investment trust (REIT).



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Midstream Partners