

Energy Transfer Partners, L.P.
Form 10-K
February 24, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

73-1493906
(I.R.S.
Employer
Identification
No.)

3738 Oak Lawn Avenue, Dallas, Texas 75219
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(214) 981-0700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Units
Name of each exchange on which registered
New York Stock Exchange
Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No ___

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

Yes ___ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No

The aggregate market value as of June 30, 2009, of the registrant's Common Units held by non-affiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was \$4.28 billion. Common Units held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Units have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At February 16, 2010, the registrant had 189,242,287 Common Units outstanding.

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PART I

Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by us in periodic press releases and some oral statements of our officials during presentations about us, include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as anticipate, believe, intend, project, plan, expect, continue, estimate, goal, forecast, may, will, or similar expressions help identify forward-looking statements. Although we and our general partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. When considering forward-looking statements, please read the section titled Risk Factors included under Item 1A of this annual report.

Definitions

The following is a list of certain acronyms and terms generally used in the energy industry and throughout this document:

/d	per day
Btu	British thermal unit, an energy measurement
Capacity	capacity of a pipeline, processing plant or storage facility refers to the maximum capacity under normal operating conditions and, with respect to pipeline transportation capacity, is subject to multiple factors (including natural gas injections and withdrawals at various delivery points along the pipeline and the utilization of compression) which may reduce the throughput capacity from specified capacity levels.
Dth	million British thermal units (dekatherm). A therm factor is used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used.
Mcf	thousand cubic feet
MMBtu	million British thermal units
MMcf	million cubic feet
Bcf	billion cubic feet
NGL	natural gas liquid, such as propane, butane and natural gasoline
Tcf	trillion cubic feet
LIBOR	London Interbank Offered Rate
NYMEX	New York Mercantile Exchange
Reservoir	a porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

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ITEM 1. BUSINESS

Overview

We (Energy Transfer Partners, L.P., a Delaware limited partnership, ETP or the Partnership) are one of the largest publicly traded master limited partnerships in the United States in terms of equity market capitalization (approximately \$8.46 billion as of February 11, 2010). We are managed by our general partner, Energy Transfer Partners GP, L.P. (our General Partner), which is in turn managed by its general partner, Energy Transfer Partners, L.L.C. (ETP LLC). Energy Transfer Equity, L.P., a publicly traded master limited partnership (ETE), owns ETP LLC, the general partner of our General Partner. The activities in which we are engaged, all of which are in the United States, and the wholly-owned operating subsidiaries (collectively referred to as the Operating Companies) through which we conduct those activities are as follows:

Natural gas operations, consisting of the following segments:

- i natural gas midstream and intrastate transportation and storage through La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company (ETC OLP);
- i interstate natural gas transportation services through Energy Transfer Interstate Holdings, LLC (ET Interstate), ETC Fayetteville Express Pipeline, LLC (ETC FEP) and ETC Tiger Pipeline, LLC (ETC Tiger). ET Interstate is the parent company of Transwestern Pipeline Company, LLC (Transwestern) and ETC Midcontinent Express Pipeline, LLC (ETC MEP).

Retail propane through Heritage Operating, L.P. (HOLP) and Titan Energy Partners, L.P. (Titan).

Unless the context requires otherwise, the Partnership, the Operating Companies, and their subsidiaries are collectively referred to in this report as we, us, ETP, Energy Transfer or the Partnership.

Significant Achievements in 2009 and Beyond

Our significant 2009 achievements included the following, as discussed in more detail herein:

Generated revenues of approximately \$5.42 billion, operating income of approximately \$1.13 billion and net income of approximately \$791.5 million. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Continued our expansion initiative, completing projects totaling more than 1,000 miles of large diameter pipeline ranging from 36 inches to 42 inches with approximately 5 Bcf/d of natural gas transportation capacity during 2009. These pipeline completions, coupled with our existing pipeline systems, further enhance our natural gas transportation capabilities to and from the most prolific producing areas in the United States of America. Below is information about some of our more significant completed expansion projects.

	Project	Capacity	Miles	Completion Date
36	Southern Shale	700 MMcf/d	31	January 2009
36	Cleburne to Tolar	400 MMcf/d	20	January 2009
36	Katy expansion	400 MMcf/d	56	February 2009

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Phoenix lateral	500 MMcf/d	260	February 2009
42 Texas Independence Pipeline	1.1 Bcf/d	143	August 2009

Completed construction of the Midcontinent Express pipeline, an approximately 500-mile interstate natural gas pipeline that originates near Bennington, Oklahoma, is routed through Perryville, Louisiana, and

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terminates at an interconnect with Transcontinental Gas Pipeline Corporation's, or Transco's interstate natural gas pipeline in Butler, Alabama. The pipeline has a current capacity of 1.4 Bcf/d on Zone 1 and 1.0 Bcf/d on Zone 2, all of which has been committed pursuant to predominantly 10-year firm transportation contracts with shippers. The pipeline has also received long-term transportation contracts related to additional capacity that is planned to be added through the utilization of additional compression. The planned capacity expansions to 1.8 Bcf/d on Zone 1 and 1.2 Bcf/d on Zone 2 are expected to be completed in the latter part of 2010. Midcontinent Express pipeline is a 50/50 joint venture with Kinder Morgan Energy Partners, L.P. (KMP).

Completed several financing transactions despite challenging market conditions, including:

- i The issuance of \$1.0 billion aggregate principal amount of Senior Notes in April 2009.
- i The issuance of an aggregate of 23,575,000 Common Units from offerings in January 2009, April 2009 and October 2009.
- i The issuance of 1,891,691 Common Units during November and December 2009 under an equity distribution program, as described in Note 7 to our consolidated financial statements.
- i The issuance of \$350.0 million aggregate principal amount of Senior Notes at Transwestern in December 2009.

In addition, in January 2010, we issued 9,775,000 Common Units through a public offering. The proceeds from these transactions were used primarily to repay borrowings under our revolving credit facility and to fund capital expenditures related to pipeline projects.

Recent Developments and Current Growth Projects

Fayetteville Express Pipeline LLC

In October 2008, we entered into a 50/50 joint venture with KMP for the development of the Fayetteville Express pipeline, an approximately 185-mile 42-inch pipeline that will originate in Conway County, Arkansas, continue eastward through White County, Arkansas and terminate at an interconnect with Trunkline Gas Company in Quitman County, Mississippi. The pipeline is expected to have an initial capacity of 2.0 Bcf/d. In December 2009, Fayetteville Express Pipeline LLC (FEP), the entity formed to own and operate this pipeline, received approval of its application for Federal Energy Regulatory Commission (FERC) authority to construct and operate this pipeline. The only request for rehearing of FERC's authorization is a limited one related to a discrete rate issue filed by FEP itself. Subject to final resolution of this issue, the pipeline is expected to be in service by the end of 2010. FEP has secured binding 10-year commitments for transportation of approximately 1.85 Bcf/d. The new pipeline will interconnect with Natural Gas Pipeline Company of America (NGPL) in White County, Arkansas, Texas Gas Transmission in Coahoma County, Mississippi, and ANR Pipeline Company in Quitman County, Mississippi. NGPL is operated and partially owned by Kinder Morgan, Inc., which owns the general partner of KMP. Our estimate of the total costs of this project is approximately \$1.2 billion.

Tiger Pipeline

In January 2009, we announced that we had entered into an agreement with Chesapeake Energy Marketing, Inc., a wholly-owned subsidiary of Chesapeake Energy Corporation (Chesapeake), to construct an approximately 180-mile 42-inch interstate natural gas pipeline (Tiger pipeline). Tiger pipeline will connect to our dual 42-inch pipeline system near Carthage, Texas, extend through the heart of the Haynesville Shale and end near Delhi, Louisiana, with interconnects to at least seven interstate pipelines at various points in Louisiana.

The agreement with Chesapeake provides for a 15-year commitment for firm transportation capacity of approximately 1.0 Bcf/d. We have also entered into agreements with EnCana Marketing (USA), Inc., a subsidiary of EnCana Corporation and other shippers that provide for 10-year commitments for firm

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transportation capacity on the Tiger pipeline, bringing the initial design capacity to 2.0 Bcf/d in the aggregate, which is expected to be in service in the first half of 2011. In February 2010, we announced that we had entered into a 10-year commitment for an additional 400 MMcf/d. The ultimate capacity of the expansion, which is expected to be completed in the second half of 2011, will be based on producer response during a binding open season.

In August 2009, we filed an application for FERC authority to construct and operate the Tiger pipeline, which is pending necessary regulatory approvals. We expect the total costs of this project to be \$1.2 billion, excluding the costs of the recently announced expansion. The ultimate cost will depend on the results of the binding open season.

Segment Overview

Our segments and business are as described below. See Note 15 to our consolidated financial statements for additional financial information about our segments.

Intrastate Transportation and Storage Segment

Through our intrastate transportation and storage segment, we own and operate approximately 7,800 miles of natural gas transportation pipelines and three natural gas storage facilities located in the state of Texas.

Through ETC OLP, we own the largest intrastate pipeline system in the United States with interconnects to Texas markets and to major consumption areas throughout the United States. Our intrastate transportation and storage segment focuses on the transportation of natural gas between major markets from various natural gas producing areas through connections with other pipeline systems as well as through our Oasis pipeline, our East Texas pipeline, our natural gas pipeline and storage assets that are referred to as the ET Fuel System, and our HPL System, which are described below.

Our intrastate transportation and storage segment accounted for approximately 56%, 65% and 59% of our total consolidated operating income for the years ended December 31, 2009, December 31, 2008 and August 31, 2007, respectively. The results from our intrastate transportation and storage segment are primarily derived from the fees we charge to transport natural gas on our pipelines, including a fuel retention component. We also generate revenues and margin from the sale of natural gas to electric utilities, independent power plants, local distribution companies, industrial end-users and other marketing companies on the HPL System. Generally, we purchase natural gas from either the market (including purchases from our midstream segment's marketing operations) or from producers at the wellhead. To the extent the natural gas comes from producers, it is purchased at a discount to a specified market price and resold to customers based on an index price. In addition, our intrastate transportation and storage segment generates revenues from fees charged for storing customers' working natural gas in our storage facilities and from margin from managing natural gas for our own account.

Interstate Transportation Segment

Through our interstate transportation segment, we own and operate approximately 2,700 miles of interstate natural gas pipeline, with an additional 180 miles under construction. In addition, we have interests in joint ventures that have 500 miles of interstate natural gas pipeline and 185 miles under construction.

Our interstate transportation segment accounted for approximately 12%, 11% and 12% of our total consolidated operating income for the years ended December 31, 2009, December 31, 2008 and August 31, 2007, respectively. The results from our interstate transportation segment are primarily derived from the fees earned from natural gas transportation services and operational gas sales. In addition, our joint ventures contributed \$17.6 million of our income before income taxes for the year ended December 31, 2009.

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Midstream Segment

Through our midstream segment, we own and operate approximately 7,000 miles of in service natural gas gathering pipelines, three natural gas processing plants, eleven natural gas treating facilities and eleven natural gas conditioning facilities. Our midstream segment focuses on the gathering, compression, treating, blending, processing and marketing of natural gas, and our operations are currently concentrated in the Austin Chalk trend of southeast Texas, the Permian Basin of west Texas and New Mexico, the Barnett Shale in north Texas, the Bossier Sands in east Texas, and the Uinta and Piceance Basins in Utah and Colorado and are integrated with our intrastate transportation and storage assets.

Our midstream segment accounted for approximately 12%, 14% and 15% of our total consolidated operating income for the years ended December 31, 2009, December 31, 2008 and August 31, 2007, respectively. Our midstream segment results are derived primarily from margins we realize for natural gas volumes that are gathered, transported, purchased and sold through our pipeline systems, processed at our processing and treating facilities, and the volumes of NGLs processed at our facilities. We also market natural gas on our pipeline systems in addition to other pipeline systems to realize incremental revenue on gas purchased, increase pipeline utilization and provide other services that are valued by our customers. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk.

Retail Propane Segment

We are one of the three largest retail propane marketers in the United States based on gallons sold and serve more than one million customers through a nationwide retail distribution network consisting of approximately 440 customer service locations in approximately 40 states. Our propane operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. Our propane business has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth.

Our retail propane segment accounted for approximately 20%, 10% and 15% of our total consolidated operating income for the years ended December 31, 2009, December 31, 2008 and August 31, 2007, respectively. The retail propane segment is a margin-based business in which gross profits depend on the excess of sales price over propane supply cost. Consequently, the profitability of our retail propane business is sensitive to changes in wholesale propane prices. Our propane business is largely seasonal and dependent upon weather conditions in our service areas, as discussed further in Retail Propane Segment - Industry Overview.

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Natural Gas Operations Asset Overview

The following map depicts the major components of our natural gas operations:

Intrastate Transportation and Storage Segment

The following details our pipelines and storage facilities in the intrastate transportation and storage segment.

ET Fuel System

Capacity of 5.2 Bcf/d

Approximately 2,570 miles of natural gas pipeline

2 storage facilities with 12.4 Bcf of total working gas capacity

The ET Fuel System serves some of the most active drilling areas in the United States and is comprised of approximately 2,570 miles of intrastate natural gas pipeline and related natural gas storage facilities. Included in the ET Fuel System is the Texas Independence pipeline, which was completed in August 2009. With approximately 460 receipt and/or delivery points, including interconnects with pipelines providing direct access to power plants and interconnects with other intrastate and interstate pipelines, the ET Fuel System is

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strategically located near high-growth production areas and provides access to the Waha Hub near Midland, Texas, the Katy Hub near Houston, Texas and the Carthage Hub in east Texas, the three major natural gas trading centers in Texas. The ET Fuel System has total system throughput capacity of approximately 5.2 Bcf/d. The major shippers on our pipelines include XTO Energy, Inc., EOG Resources, Inc., Chesapeake Energy Marketing, Inc., Encana Marketing (USA), Inc. and Quicksilver Resources, Inc.

The ET Fuel System also includes our Bethel natural gas storage facility, with a working capacity of 6.4 Bcf, an average withdrawal capacity of 300 MMcf/d and an injection capacity of 75 MMcf/d, and our Bryson natural gas storage facility, with a working capacity of 6.0 Bcf, an average withdrawal capacity of 120 MMcf/d and an average injection capacity of 96 MMcf/d. All of our storage capacity on the ET Fuel System is contracted to third parties under fee-based arrangements.

In addition, the ET Fuel System is integrated with our Godley plant, which gives us the ability to bypass the plant when processing margins are unfavorable by blending the untreated natural gas from the North Texas System with natural gas on the ET Fuel System while continuing to meet pipeline quality specifications.

Oasis Pipeline

Capacity of 1.2 Bcf/d
Approximately 600 miles of natural gas pipeline
Connects Waha to Katy market hubs

The Oasis pipeline is primarily a 36-inch diameter, 600-mile natural gas pipeline that directly connects the Waha Hub to the Katy Hub. It has bi-directional capability with approximately 1.2 Bcf/d of throughput capacity moving west-to-east and greater than 750 MMcf/d of throughput capacity moving east-to-west. The Oasis pipeline has many interconnections with other pipelines, power plants, processing facilities, municipalities and producers.

The Oasis pipeline is integrated with our Southeast Texas System and is an important component to maximizing our Southeast Texas System's profitability. The Oasis pipeline enhances the Southeast Texas System by (i) providing access for natural gas on the Southeast Texas System to other third party supply and market points and interconnecting pipelines and (ii) allowing us to bypass our processing plants and treating facilities on the Southeast Texas System and blend untreated natural gas from the Southeast Texas System with gas on the Oasis pipeline while continuing to meet pipeline quality specifications.

Houston Pipeline System (HPL System)

Capacity of 5.5 Bcf/d
Approximately 4,300 miles of natural gas pipeline
Bammel storage facility with 62 Bcf of total working gas capacity

The HPL System is comprised of approximately 4,300 miles of intrastate natural gas pipeline with an aggregate capacity of 5.5 Bcf/d, the underground Bammel storage reservoir and related transportation assets. The system has access to multiple sources of historically significant natural gas supply reserves from south Texas, the Gulf Coast of Texas, east Texas and the western Gulf of Mexico, and is directly connected to major gas distribution, electric and industrial load centers in Houston, Corpus Christi, Texas City and other cities located along the Gulf Coast of Texas. The HPL System also includes 32 miles of the Cleburne to Carthage pipeline from our Texoma pipeline interconnect to the Carthage Hub. The HPL System is well situated to gather gas in many of the major gas producing areas in Texas including the strong presence in the key Houston Ship Channel and Katy Hub markets, allowing us to play an important role in the Texas natural gas markets. The HPL System also offers its shippers off-system opportunities due to its numerous interconnections with other pipeline systems, its direct access to multiple market hubs at Katy, the Houston Ship Channel and Agua Dulce, and our Bammel storage facility.

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The Bammel storage facility has a total working gas capacity of approximately 62 Bcf, a peak withdrawal rate of 1.3 Bcf/d and a peak injection rate of 0.6 Bcf/d. The Bammel storage facility is located near the Houston Ship Channel market area and the Katy Hub and is ideally suited to provide a physical backup for on-system and off-system customers. As of December 31, 2009, we had approximately 25.4 Bcf committed under fee-based arrangements with third parties and approximately 27.6 Bcf stored in the facility for our own account.

East Texas Pipeline

Capacity of 2.4 Bcf/d

Approximately 370 miles of natural gas pipeline

The East Texas pipeline is a 370-mile natural gas pipeline that connects three treating facilities, one of which we own, with our Southeast Texas System. The East Texas pipeline was the first phase of a multi-phased project that increased service to producers in East and North Central Texas and provided access to the Katy Hub. The East Texas pipeline expansions include the 36-inch East Texas extension to connect our Reed compressor station in Freestone County to our Grimes County compressor station, the 36-inch Katy expansion connecting Grimes to the Katy Hub, and the 42-inch Southeast Bossier pipeline connecting our Cleburne to Carthage pipeline to the HPL system. Key shippers on the East Texas pipeline include XTO and EnCana with an average of 420,000 MMBtu/d and 540,000 MMBtu/d, respectively.

Interstate Transportation Pipelines

The following details our pipelines in the interstate transportation segment.

Transwestern Pipeline

Capacity of 2.1 Bcf/d

Approximately 2,700 miles of interstate natural gas pipeline

The Transwestern pipeline is an open-access natural gas interstate pipeline extending from the gas producing regions of West Texas, eastern and northwest New Mexico, and southern Colorado primarily to pipeline interconnects off the east end of its system and to pipeline interconnects at the California border. Including the Phoenix lateral pipeline completed in February 2009, Transwestern comprises approximately 2,700 miles of pipeline with a capacity of 2.1 Bcf/d. The Transwestern pipeline has access to three significant gas basins: the Permian Basin in West Texas and eastern New Mexico; the San Juan Basin in northwest New Mexico and southern Colorado; and the Anadarko Basin in the Texas and Oklahoma panhandle. Natural gas sources from the San Juan Basin and surrounding producing areas can be delivered eastward to Texas intrastate and mid-continent connecting pipelines and natural gas market hubs as well as westward to markets like Arizona, Nevada and California.

Transwestern's customers include local distribution companies, producers, marketers, electric power generators and industrial end-users.

Transwestern transports natural gas in interstate commerce. As a result, Transwestern qualifies as a natural gas company under the Natural Gas Act (NGA) and is subject to the regulatory jurisdiction of the FERC.

The Phoenix lateral pipeline consists of 260 miles of pipeline lateral, with a throughput capacity of 500 MMcf/d, connecting the Phoenix area to Transwestern's existing mainline at Ash Fork, Arizona and approximately 25 miles of 36-inch pipeline looping of Transwestern's existing San Juan Lateral, adding 375 MMcf/d of capacity.

Midcontinent Express Pipeline

Current capacity of 1.4 Bcf/d on Zone 1 (placed in service in April 2009) and 1.0 Bcf/d on Zone 2 (placed in service in August 2009)

Planned capacity expansion to 1.8 Bcf/d on Zone 1 and 1.2 Bcf/d on Zone 2

Approximately 500 miles of interstate natural gas pipeline

50/50 joint venture with KMP

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We constructed, through a 50/50 joint venture arrangement with KMP, the Midcontinent Express pipeline, an approximately 500-mile interstate natural gas pipeline. The Midcontinent Express pipeline originates near Bennington, Oklahoma, is routed through Perryville, Louisiana, and terminates at an interconnect with Transco's interstate natural gas pipeline in Butler, Alabama, which transports natural gas to the significant natural gas markets in the northeast portion of the United States. The pipeline has a current capacity of 1.4 Bcf/d, all of which capacity has been committed pursuant to firm transportation contracts with shippers for periods ranging from 5 to 10 years. The pipeline has also received long-term transportation contracts related to an additional 0.4 Bcf/d of capacity on Zone 1 and 0.2 Bcf/d of capacity on Zone 2 that is planned to be added through the utilization of additional compression. The first Zone of the pipeline, from Bennington, Oklahoma to Perryville, Louisiana, was placed in service in April 2009, and the second Zone of the pipeline from Perryville, Louisiana to Butler, Alabama was placed in service in August 2009. The expansion projects are expected to be completed in the latter part of 2010.

Fayetteville Express Pipeline

Initial planned capacity of 2.0 Bcf/d (expected to be in service by the end of 2010)
Approximately 185 miles of interstate natural gas pipeline
50/50 joint venture with KMP

See additional description of FEP included in Recent Developments above.

Tiger Pipeline

Initial planned capacity of 2.0 Bcf/d (expected to be in service in the first half of 2011)
Planned expansion of not less than 0.4 Bcf/d (expected to be completed in the second half of 2011)
Approximately 180 miles of interstate natural gas pipeline

See additional description of Tiger pipeline included in Recent Developments above.

Midstream

The following details our assets in the midstream segment.

Southeast Texas System

5,200 miles of natural gas pipeline
1 natural gas processing plant (the La Grange plant) with aggregate capacity of 240 MMcf/d
11 natural gas treating facilities with aggregate capacity of 1.3 Bcf/d
4 natural gas conditioning facilities with aggregate capacity of 670 MMcf/d

The Southeast Texas System is a 5,200-mile integrated system located in southeast Texas that gathers, compresses, treats, processes and transports natural gas from the Austin Chalk trend. The Southeast Texas System is a large natural gas gathering system covering thirteen counties between Austin and Houston. The system includes the La Grange processing plant, 11 treating facilities and 4 conditioning facilities. This system is connected to the Katy Hub through the East Texas pipeline and is also connected to the Oasis pipeline, as well as two power plants. This allows us to bypass our processing plants and treating facilities when processing margins are unfavorable by blending untreated natural gas from the Southeast Texas System with natural gas on the Oasis pipeline while continuing to meet pipeline quality specifications.

The La Grange processing plant is a cryogenic natural gas processing plant that processes the rich natural gas that flows through our system to produce residue gas and NGLs. The plant has a processing capacity of approximately 240 MMcf/d.

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Our 11 treating facilities have an aggregate capacity of 1.3 Bcf/d. These treating facilities remove carbon dioxide and hydrogen sulfide from natural gas gathered into our system before the natural gas is introduced to transportation pipelines to ensure that the gas meets pipeline quality specifications. In addition, our four conditioning facilities have an aggregate capacity of 670 MMcf/d. These conditioning facilities remove heavy hydrocarbons from the gas gathered into our systems so the gas can be redelivered and meet downstream pipeline hydrocarbon dew point specifications.

North Texas System

160 miles of natural gas pipeline

1 natural gas processing plant (the Godley plant) with aggregate capacity of 500 MMcf/d

1 natural gas conditioning facility with capacity of 100 MMcf/d

The North Texas System is a 160-mile integrated system located in four counties in North Texas that gathers, compresses, treats, processes and transports natural gas from the Barnett Shale trend. The system includes our Godley plant. The Godley plant processes rich natural gas produced from the Barnett Shale and is connected with the North Texas System and the ET Fuel System. The facility consists of a cryogenic processing plant with processing capacity of approximately 500 MMcf/d and a conditioning facility with approximately 100 MMcf/d of processing capacity.

Canyon Gathering System

1,390 miles of natural gas pipeline

6 natural gas conditioning facilities with aggregate capacity of 90 MMcf/d

The Canyon Gathering System consists of approximately 1,390 miles of gathering pipeline ranging in diameters from two inches to 16 inches in the Piceance-Uinta Basin of Colorado and Utah and six conditioning plants with an aggregate capacity of 90 MMcf/d.

Other Midstream Assets

The midstream segment also includes our interests in various midstream assets located in Texas, New Mexico and Louisiana, with gathering pipelines aggregating a combined capacity of approximately 470 MMcf/d, as well as one processing facility.

Marketing Operations

We market the natural gas that flows through our assets, referred to as on-system gas, and also use our marketing operation to attract other customers by marketing volumes of natural gas that do not move through our assets, referred to as off-system gas. For both on-system and off-system gas, we purchase natural gas from natural gas producers and other supply points and sell the natural gas to utilities, industrial consumers, other marketers and pipeline companies, thereby generating gross margins based upon the difference between the purchase and resale prices.

For the off-system gas, we purchase gas or act as an agent for small independent producers that do not have marketing operations. We develop relationships with natural gas producers to facilitate the purchase of their production on a long-term basis. We believe that this business provides us with strategic insight and market intelligence, which may impact our expansion and acquisition strategy.

Other Natural Gas Operations

Effective August 17, 2009, we acquired 100% of the membership interests of Energy Transfer Group, L.L.C. (ETG), which owns all of the partnership interests of Energy Transfer Technologies, Ltd. (ETT). ETT provides compression services to customers engaged in the transportation of natural gas, including ETP.

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In November 2009, we acquired all of the outstanding equity interests of a natural gas compression equipment business with operations in Arkansas, California, Colorado, Louisiana, New Mexico, Oklahoma, Pennsylvania and Texas.

Business Strategy

We have designed our business strategy with the goal of increasing Unitholder distributions and the value of our Common Units. We believe we have engaged, and will continue to engage, in a well-balanced plan for growth through acquisitions, internally generated expansion, and measures aimed at increasing the profitability of our existing assets.

We intend to continue to operate as a diversified, growth-oriented master limited partnership with a focus on increasing the amount of cash available for distribution on each Common Unit. We believe that by pursuing independent operating and growth strategies for our natural gas operations and retail propane business, we will be best positioned to achieve our objectives. We balance our desire for growth with our goal of preserving a strong balance sheet, strong liquidity and investment grade credit metrics.

We expect that acquisitions in natural gas operations will be the primary focus of our acquisition strategy going forward, although we also expect to continue to pursue complementary propane acquisitions. We also anticipate that our natural gas operations will provide internal growth projects of greater scale compared to those available in our propane business, as demonstrated by our significant number of completed natural gas pipeline projects as well as our recently announced pipeline projects.

Natural Gas Operations Business Strategies

Enhance profitability of existing assets. We intend to increase the profitability of our existing asset base by adding new volumes of natural gas under long-term producer commitments, undertaking additional initiatives to enhance utilization and reducing costs by improving operations.

Engage in construction and expansion opportunities. We intend to leverage our existing infrastructure and customer relationships by constructing and expanding systems to meet new or increased demand for midstream and transportation services.

Increase cash flow from fee-based businesses. We intend to seek to increase the percentage of our midstream business conducted with third parties under fee-based arrangements in order to reduce our exposure to changes in the prices of natural gas and NGLs.

Growth through acquisitions. We intend to continue to make strategic acquisitions of midstream, transportation and storage assets in our current areas of operation that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion of our existing and acquired assets.

Propane Business Strategies

Pursue internal growth opportunities. In addition to pursuing expansion through acquisitions, we have aggressively focused on high return internal growth opportunities at our existing customer service locations. We believe that by concentrating our operations in areas experiencing higher-than-average population growth, we are well positioned to achieve internal growth by adding new customers.

Growth through complementary acquisitions. We believe that our position as one of the three largest propane marketers in the United States provides us a solid foundation to continue our acquisition growth strategy through consolidation.

Maintain low-cost, decentralized operations. We focus on controlling costs, and we attribute our low overhead costs primarily to our decentralized structure.

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Natural Gas Operations Segments

Industry Overview

The midstream natural gas industry is the link between the exploration and production of natural gas and the delivery of its components to end-use markets. The midstream industry consists of natural gas gathering, compression, treating, processing and transportation and NGL fractionation and transportation, and is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas producing wells.

Natural gas has widely varying quality and composition, depending on the field, the formation or the reservoir from which it is produced. The principal constituents of natural gas are methane and ethane, though most natural gas also contains varying amounts of heavier components, such as propane, butane and natural gasoline that may be removed by a number of processing methods. Most raw materials produced at the wellhead are not suitable for long-haul pipeline transportation or commercial use and must be compressed, transported via pipeline to a central processing facility, and then processed to remove the heavier hydrocarbon components and other contaminants that would interfere with pipeline transportation or the end use of the gas.

Demand for natural gas. Natural gas continues to be a critical component of energy consumption in the United States. According to data released in December 2009 by the Energy Information Administration, or the EIA, total domestic consumption of natural gas is expected to remain steady through 2035, with average annual consumption of 23.1 Tcf during that period, compared to 2009 consumption of 22.6 Tcf. The industrial and electricity generation sectors currently account for more than half of natural gas usage in the United States.

Natural gas gathering. The natural gas gathering process begins with the drilling of wells into gas bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems generally consist of a network of small diameter pipelines and, if necessary, compression systems that collect natural gas from points near producing wells and transport it to larger pipelines for further transportation.

Natural gas compression. Gathering systems are operated at design pressures that will maximize the total throughput from all connected wells. Specifically, lower pressure gathering systems allow wells, which produce at progressively lower field pressures as they age, to remain connected to gathering systems and to continue to produce for longer periods of time. As the pressure of a well declines, it becomes increasingly more difficult to deliver the remaining production in the ground against a higher pressure that exists in the connecting gathering system. Field compression is typically used to lower the pressure of a gathering system. If field compression is not installed, then the remaining production in the ground will not be produced because it cannot overcome the higher gathering system pressure. In contrast, if field compression is installed, then a well can continue delivering production that otherwise might not be produced.

Natural gas treating. Natural gas has a varied composition depending on the field, the formation and the reservoir from which it is produced. Natural gas from certain formations is higher in carbon dioxide, hydrogen sulfide or certain other contaminants. Treating plants remove carbon dioxide and hydrogen sulfide from natural gas to ensure that it meets pipeline quality specifications.

Natural gas processing. Some natural gas produced by a well does not meet the pipeline quality specifications established by downstream pipelines or is not suitable for commercial use and must be processed to remove the mixed NGL stream. In addition, some natural gas produced by a well, while not required to be processed, can be processed to take advantage of favorable processing margins. Natural gas processing involves the separation of natural gas into pipeline quality natural gas, or residue gas, and a mixed NGL stream.

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