

Regency Energy Partners LP
Form 10-K
February 18, 2011
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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, 2010

OR

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

For the transition period from to

Commission file number: 000-51757

REGENCY ENERGY PARTNERS LP

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
2001 Bryan Street
Suite 3700, Dallas, Texas
(Address of principal executive offices)

16-1731691
(I.R.S. Employer
Identification No.)

75201
(Zip Code)

(214) 750-1771
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report): None

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Units of Limited Partner Interests	The Nasdaq Global Select Market

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange 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 web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). 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 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 "small reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) 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

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As of June 30, 2010, the aggregate market value of the registrant's common units held by non-affiliates of the registrant was \$2,255,285,940 based on the closing sale price on such date as reported on the NASDAQ Global Select Market.

There were 137,295,308 common units outstanding as of February 10, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

None

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REGENCY ENERGY PARTNERS LP

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2010

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Introductory Statement

References in this report to the Partnership, we, our, us and similar terms, when used in an historical context, refer to Regency Energy Partners LP and its subsidiaries. When used in the present tense or prospectively, these terms refer to the Partnership and its subsidiaries. We use the following definitions in this annual report on Form 10-K:

Name	Definition or Description
Alinda Investors	Alinda Gas Pipelines I, L.P. and Alinda Gas Pipelines II, L.P.
ACESA	The American Clean Energy and Security Act of 2009
ASC	ASC Hugoton LLC
Bbls/d	Barrels per day
Bcf/d	One billion cubic feet per day
BTU	A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit
CDM	CDM Resource Management LLC
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFTC	Commodity Futures Trading Commission
DHS	Department of Homeland Security
DOT	U.S. Department of Transportation
EFS Haynesville	EFS Haynesville, LLC, a 100 percent owned subsidiary of GECC
EIA	Energy Information Administration
EnergyOne	FrontStreet EnergyOne LLC
El Paso	El Paso Field Services, LP
EPA	Environmental Protection Agency
ETE	Energy Transfer Equity, L.P.
ETE GP	ETE GP Acquirer LLC
ETP	Energy Transfer Partners, L.P.
FASB	Financial Accounting Standards Board
FASB ASC	FASB Accounting Standards Codification
FERC	Federal Energy Regulatory Commission
Finance Corp.	Regency Energy Finance Corp., a wholly-owned subsidiary of the Partnership
FrontStreet	FrontStreet Hugoton LLC
GAAP	Accounting principles generally accepted in the United States of America
GE	General Electric Company
GE EFS	General Electric Energy Financial Services, a unit of GECC, combined with Regency GP Acquirer LP and Regency LP
GECC	General Electric Capital Corporation, an indirect wholly owned subsidiary of GE
General Partner	Regency GP LP, the general partner of the Partnership, or Regency GP LLC, the general partner of Regency GP LP, which effectively manages the business and affairs of the Partnership through Regency Employees Management LLC
GPM	Gallons per minute
GP Seller	Regency GP Acquirer, L.P.
Gulf States	Gulf States Transmission LLC, a wholly owned subsidiary of the Partnership
HLPSA	Hazardous Liquid Pipeline Safety Act
HM Capital	HM Capital Partners LLC
HPC	RIGS Haynesville Partnership Co., a general partnership, and its 100 percent owned subsidiary, Regency Intrastate Gas LP
ICA	Interstate Commerce Act
IDRs	Incentive Distribution Rights
IPO	Initial Public Offering of Securities
IRS	Internal Revenue Service
ISDA	International Swap Dealers Association
KMP	Kinder Morgan Energy Partners, L.P.

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Name	Definition or Description
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MEP	Midcontinent Express Pipeline LLC
MLP	Master Limited Partnership
MMbtu	One million BTUs
MMbtu/d	One million BTUs per day
MMcf	One million cubic feet
MMcf/d	One million cubic feet per day
MQD	Minimum Quarterly Distribution
Nasdaq	Nasdaq Stock Market, LLC
Nexus	Nexus Gas Holdings, LLC
NGA	Natural Gas Act of 1938
NGLs	Natural gas liquids, including ethane, propane, normal butane, iso butane and natural gasoline
NGPA	Natural Gas Policy Act of 1978
NGPSA	Natural Gas Pipeline Safety Act of 1968, as amended
NPDES	National Pollutant Discharge Elimination System
NYMEX	New York Mercantile Exchange
OSHA	Occupational Safety and Health Act
Partnership	Regency Energy Partners LP
PTO	Paid time off
Pueblo	Pueblo Midstream Gas Corporation, a wholly-owned subsidiary of the Partnership
RCRA	Resource Conservation and Recovery Act
Regency HIG	Regency Haynesville Intrastate Gas LLC, a wholly owned subsidiary of the Partnership
Regency Midcon	Regency Midcontinent Express LLC, a 100 percent owned subsidiary of the Partnership
RFS	Regency Field Services LLC, a wholly-owned subsidiary of the Partnership
RGS	Regency Gas Services LP, a wholly-owned subsidiary of the Partnership
RIG	Regency Intrastate Gas LP
RIGS	Regency Intrastate Gas System
SCADA	System Control and Data Acquisition
SEC	Securities and Exchange Commission
Series A Preferred Units	Series A convertible redeemable preferred units
Services Co.	ETE Services Company, LLC
TCEQ	Texas Commission on Environmental Quality
Tcf	One trillion cubic feet
Tcf/d	One trillion cubic feet per day
TRRC	Texas Railroad Commission
WTI	West Texas Intermediate Crude
Zephyr	Zephyr Gas Services, LP, or Zephyr Gas Services LLC after September 1, 2010

Cautionary Statement about Forward-Looking Statements

Certain matters discussed in this report include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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 or similar expressions help identify forward-looking statements. Although we believe our forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, we cannot give

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assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions, including without limitation the following:

volatility in the price of oil, natural gas and natural gas liquids;

declines in the credit markets and the availability of credit for us as well as for producers connected to our pipelines and our gathering and processing facilities, and for our customers of our contract compression and contract treating businesses;

the level of creditworthiness of, and performance by, our counterparties and customers;

our access to capital to fund organic growth projects and acquisitions, and our ability to obtain debt or equity financing on satisfactory terms;

our use of derivative financial instruments to hedge commodity and interest rate risks;

the amount of collateral required to be posted from time-to-time in our transactions;

changes in commodity prices, interest rates and demand for our services;

changes in laws and regulations impacting the midstream sector of the natural gas industry, including those that relate to climate change and environmental protection;

weather and other natural phenomena;

industry changes including the impact of consolidations and changes in competition;

regulation of transportation rates on our natural gas pipelines;

our ability to obtain required approvals for construction or modernization of our facilities and the timing of production from such facilities; and

the effect of accounting pronouncements issued periodically by accounting standard setting boards.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may differ materially from those anticipated, estimated, projected or expected.

Other factors that could cause our actual results to differ from our projected results are discussed in Item 1A of this annual report.

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Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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Item 1. Business

OVERVIEW

We are a growth-oriented publicly-traded Delaware limited partnership formed in 2005 engaged in the gathering, treating, processing, compression and transportation of natural gas and NGLs. We focus on providing midstream services in some of the most prolific natural gas producing regions in the United States, including the Haynesville, Eagle Ford, Barnett, Fayetteville and Marcellus shales as well as the Permian Delaware basin. Our assets are primarily located in Louisiana, Texas, Arkansas, Pennsylvania, Mississippi, Alabama and the mid-continent region of the United States, which includes Kansas, Colorado and Oklahoma.

We divide our operations into five business segments:

Gathering and Processing. We provide wellhead-to-market services to producers of natural gas, which include transporting raw natural gas from the wellhead through gathering systems, processing raw natural gas to separate NGLs and selling or delivering the pipeline-quality natural gas and NGLs to various markets and pipeline systems.

Transportation. We own a 49.99 percent general partner interest in HPC, which owns RIGS, a pipeline that delivers natural gas from northwest Louisiana to downstream pipelines and markets through the 450-mile intrastate natural gas pipeline. We also own a 49.9 percent interest in MEP, which owns an interstate natural gas pipeline with approximately 500 miles stretching from southeast Oklahoma through northeast Texas, northern Louisiana and central Mississippi to an interconnect with the Transcontinental Gas Pipe Line system in Butler, Alabama.

Contract Compression. We own and operate a fleet of compressors used to provide turn-key natural gas compression services for customer specific systems.

Contract Treating. We own and operate a fleet of equipment used to provide treating services, such as carbon dioxide and hydrogen sulfide removal, natural gas cooling, dehydration and BTU management, to natural gas producers and midstream pipeline companies.

Corporate and Others. Our Corporate and Others segment comprises a small regulated pipeline and our corporate offices. See Note 16 to our consolidated financial statements for additional financial information about our segments.

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The following map depicts the geographic areas of our operations.

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ORGANIZATIONAL STRUCTURE

The chart below depicts our organizational and ownership structure as of December 31, 2010.

INDUSTRY OVERVIEW

General. The midstream natural gas industry is the link between exploration and production of raw natural gas and the delivery of its components to end-user markets. It consists of natural gas gathering, compression, dehydration, processing, amine treating, fractionation and transportation. Raw natural gas produced from the wellhead is gathered and often delivered to a plant located near the production, where it is treated, dehydrated and/or processed. Natural gas processing involves the separation of raw natural gas into pipeline quality natural gas, principally methane and mixed NGLs. Natural gas treating entails the removal of impurities, such as water, sulfur compounds, carbon dioxide and nitrogen. Pipeline-quality natural gas is delivered by interstate and intrastate pipelines to markets. Mixed NGLs are typically transported via NGL pipelines or by truck to

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fractionators, which separate the NGLs into their components, such as ethane, propane, normal butane, isobutane and natural gasoline. The NGL components are then sold to end users.

Natural Gas Gathering. A gathering system typically consists of a network of small diameter pipelines and, if necessary, a compression system which together collects natural gas from points near producing wells and transports it to processing or treating plants or larger diameter pipelines for further transportation.

Compression. Ideally-designed gathering systems are operated at pressures that maximize the total throughput volumes from all connected wells. Natural gas compression is a mechanical process in which a volume of gas at a lower pressure is boosted, or compressed, to a desired higher pressure, allowing the gas to flow into a higher pressure downstream pipeline to be transported to market. Since natural gas wells produce gas at progressively lower field pressures as they age, this raw natural gas must be compressed to deliver the remaining production at higher pressures in the existing connected gathering system. This field compression is typically used to lower the suction (entry) pressure, while maintaining or increasing the discharge (exit) pressure to the gathering system which allows the well production to flow at a lower receipt pressure while providing sufficient pressure to deliver gas into a higher pressure downstream pipeline.

Dehydration. Dehydration removes water from the natural gas stream, which can form ice when combined with natural gas and cause corrosion when combined with carbon dioxide or hydrogen sulfide.

Processing. Natural gas processing involves the separation of natural gas into pipeline quality natural gas and a mixed NGL stream. The principal component of natural gas is methane, but most natural gas also contains varying amounts of heavier hydrocarbon components, or NGLs. Natural gas is described as lean or rich depending on its content of NGLs. Most natural gas produced by a well is not suitable for long-haul pipeline transportation or commercial use because it contains NGLs and impurities. Removal and separation of individual hydrocarbons by processing is possible because of differences in weight, boiling point, vapor pressure and other physical characteristics.

Amine Treating. The amine treating process involves a continuous circulation of a liquid chemical called amine that physically contacts with the natural gas. Amine has a chemical affinity for hydrogen sulfide and carbon dioxide that allows it to absorb these impurities from the gas. After mixing in the contact vessel, the gas and amine are separated, and the impurities are removed from the amine by heating. The treating plants are sized according to the amine circulation rate in terms of GPM.

Fractionation. NGL fractionation facilities separate mixed NGL streams into discrete NGL products: ethane, propane, normal butane, isobutane and natural gasoline. Ethane is primarily used in the petrochemical industry as feedstock for ethylene, one of the basic building blocks for a wide range of plastics and other chemical products. Propane is used both as a petrochemical feedstock in the production of propylene and as a heating fuel, an engine fuel and an industrial fuel. Normal butane is used as a petrochemical feedstock in the production of butadiene (a key ingredient in synthetic rubber) and as a blend stock for motor gasoline. Isobutane is typically fractionated from mixed butane (a stream of normal butane and isobutane in solution), principally for use in enhancing the octane content of motor gasoline. Natural gasoline, a mixture of pentanes and heavier hydrocarbons, is used primarily as motor gasoline blend stock or petrochemical feedstock. We do not own or operate any NGL fractionation facilities.

Transportation. Natural gas transportation consists of moving pipeline-quality natural gas from gathering systems, processing or treating plants and other pipelines and delivering it to wholesalers, end users, local distribution companies and other pipelines.

INDUSTRY OUTLOOK

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - General Trends and Outlook .

Table of Contents**GATHERING AND PROCESSING OPERATIONS**

General. We operate gathering and processing assets in four geographic regions of the United States: north Louisiana, the mid-continent region of the United States, south Texas and west Texas. We contract with producers to gather raw natural gas from individual wells or central receipt points, which may have multiple wells behind them, located near our processing plants, treating facilities and/or gathering systems. Following the execution of a contract, we connect wells and central delivery points to our gathering lines through which the raw natural gas flows to a processing plant, treating facility or directly to interstate or intrastate gas transportation pipelines. At our processing plants and treating facilities, we remove impurities from the raw natural gas stream and extract the NGLs. We also perform a producer service function, whereby we purchase natural gas from producers at gathering systems and plants and sell this gas at downstream outlets.

All raw natural gas flowing through our gathering and processing facilities is supplied under gathering and processing contracts having terms ranging from month-to-month to the life of the oil and gas lease. For a description of our contracts, please read [Our Contracts](#) and [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Operations](#).

The pipeline-quality natural gas remaining after separation of NGLs through processing is either returned to the producer or sold, for our own account or for the account of the producer, at the tailgates of our processing plants for delivery to interstate or intrastate gas transportation pipelines.

The following table sets forth information regarding our gathering systems and processing plants as of December 31, 2010.

Region	Pipeline Length (Miles)	Plants	Compression (Horsepower)
North Louisiana	442	4	55,489
South Texas	541	2	48,132
West Texas	806	1	48,574
Mid-Continent	3,470	1	40,576
Total	5,259	8	192,771

North Louisiana Region. Our north Louisiana assets gather, compress, treat and dehydrate natural gas in five Parishes (Claiborne, Union, DeSoto, Lincoln and Ouachita) of north Louisiana and Shelby County, Texas. Our assets also include two cryogenic natural gas processing facilities, a refrigeration plant located in Bossier Parish and a conditioning plant located in Webster Parish.

Through the gathering and processing systems described above and their interconnections with HPC's pipeline system in north Louisiana described in [Transportation Operations](#), we offer producers wellhead-to-market services, including natural gas gathering, compression, processing, treating and transportation.

South Texas Region. Our south Texas assets gather, compress, treat and dehydrate natural gas in LaSalle, Webb, Karnes, Atascosa, McMullen, Frio and Dimmitt counties. Some of the natural gas produced in this region can have significant quantities of hydrogen sulfide and carbon dioxide that require treating to remove these impurities. The pipeline systems that gather this gas are connected to third-party processing plants and our treating facilities that include an acid gas reinjection well located in McMullen County, Texas.

The natural gas supply for our south Texas gathering systems is derived primarily from natural gas wells located in a mature basin that generally have long lives and predictable gas flow rates. The emerging Eagle Ford shale formation lies directly under our existing south Texas gathering system infrastructure.

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One of our treating plants consists of inlet gas compression, a 60 MMcf/d amine treating unit, a 55 MMcf/d amine treating unit and a 40 ton (per day) liquid sulfur recovery unit. This plant removes hydrogen sulfide from the natural gas stream, recovers condensate, delivers pipeline quality gas at the plant outlet and reinjects acid gas. An additional 55 MMcf/d amine treating unit is currently inactive.

We own a 60 percent interest in a joint venture that includes a treating plant in Atascosa County with a 500 GPM amine treater, pipeline interconnect facilities and approximately 13 miles of ten inch diameter pipeline. We operate this plant and the pipeline for the joint venture while our joint venture partner operates a lean gas gathering system in the Edwards Lime natural gas trend that delivers to this system.

West Texas Region. Our west Texas gathering system assets offer wellhead-to-market services to producers in Ward, Winkler, Reeves, and Pecos counties which surround the Waha Hub, one of Texas' major natural gas market areas. As a result of the proximity of our system to the Waha Hub, the Waha gathering system has a variety of market outlets for the natural gas that we gather and process, including several major interstate and intrastate pipelines serving California, the mid-continent region of the United States and Texas natural gas markets. Natural gas exploration and production drilling in this area has primarily targeted productive zones in the Permian Delaware basin and Devonian basin. These basins are mature basins with wells that generally have long lives and predictable flow rates.

We offer producers four different levels of natural gas compression on the Waha gathering system, as compared to the two levels typically offered in the industry. By offering multiple levels of compression, our gathering system is often more cost-effective for our producers, since the producer is typically not required to pay for a level of compression that is higher than the level they require.

The Waha processing plant is a cryogenic natural gas processing plant that processes raw natural gas gathered in the Waha gathering system. This plant was constructed in 1965, and, due to recent upgrades to state-of-the-art cryogenic processing capabilities, is a highly efficient natural gas processing plant. The Waha processing plant also includes an amine treating facility, which removes carbon dioxide and hydrogen sulfide from raw natural gas gathered before moving the natural gas to the processing plant. The acid gas is injected underground.

Mid-Continent Region. Our mid-continent region includes natural gas gathering systems located primarily in Kansas and Oklahoma. Our mid-continent gathering assets are extensive systems that gather, compress and dehydrate low-pressure gas from approximately 1,500 wells. These systems are geographically concentrated, with each central facility located within 90 miles of the others. We operate our mid-continent gathering systems at low pressures to maximize the total throughput volumes from the connected wells. Wellhead pressures are therefore adequate to allow for flow of natural gas into the gathering lines without the cost of wellhead compression.

We also own the Hugoton gathering system that has approximately 1,875 miles of pipeline extending over nine counties in Kansas and Oklahoma. This system is operated by a third party.

Our mid-continent systems are located in two of the largest and most prolific natural gas producing regions in the United States, the Hugoton Basin in southwest Kansas and the Anadarko Basin in western Oklahoma. These mature basins have continued to provide generally long-lived, predictable production volume.

TRANSPORTATION OPERATIONS

We own a 49.99 percent general partner interest in HPC, which owns RIGS, a pipeline that delivers natural gas from northwest Louisiana to downstream pipelines and markets through the 450-mile intrastate natural gas pipeline. We also own a 49.9 percent interest in MEP, a joint venture entity operated by an affiliate of KMP and owning an interstate natural gas pipeline with approximately 500 miles stretching from southeast Oklahoma through northeast Texas, northern Louisiana and central Mississippi to an interconnect with the Transcontinental Gas Pipe Line system in Butler, Alabama.

Table of Contents**CONTRACT COMPRESSION OPERATIONS**

The natural gas contract compression segment services include designing, sourcing, owning, insuring, installing, operating, servicing, repairing and maintaining compressors and related equipment for which we guarantee our customers 98 percent mechanical availability for land installations and 96 percent mechanical availability for over-water installations. We focus on meeting the complex requirements of field-wide compression applications, as opposed to targeting the compression needs of individual wells within a field. These field-wide applications include compression for natural gas gathering, natural gas lift for crude oil production and natural gas processing. We believe that we improve the stability of our cash flow by focusing on field-wide compression applications because such applications generally involve long-term installations of multiple large horsepower compression units. Our contract compression operations are primarily located in Texas, Louisiana, Arkansas and Pennsylvania.

CONTRACT TREATING OPERATIONS

We own and operate a fleet of equipment used to provide treating services, such as carbon dioxide and hydrogen sulfide removal, natural gas cooling, dehydration and BTU management, to natural gas producers and midstream pipeline companies. Our contract treating operations are primarily located in Texas, Louisiana and Arkansas.

CORPORATE AND OTHERS OPERATIONS

Our Corporate and Others segment comprises a small interstate natural gas pipeline and our corporate offices. The interstate natural gas pipeline consists of 10 miles of pipeline that extends from Harrison County, Texas to Caddo Parish, Louisiana.

OUR CONTRACTS

The table below provides the margin by contract types in percentages for the years ended December 31, 2010 and 2009.

Margin by Product	2010	2009
Net Fee	76%	73%
NGLs	13	18
Gas	5	4
Condensate	6	5
Total	100%	100%

Gathering and Processing Contracts. We contract with producers to gather raw natural gas from individual wells or central receipt points located near our gathering systems and processing plants. Following the execution of a contract with the producer, we connect the producer's wells or central receipt points to our gathering lines through which the natural gas is delivered to a processing plant owned and operated by us or a third party. We obtain supplies of raw natural gas for our gathering and processing facilities under contracts having terms ranging from month-to-month to life of the lease. We categorize our processing contracts in increasing order of commodity price risk as fee-based, percentage-of-proceeds or keep-whole contracts. The following is a summary of our most common contractual arrangements:

Fee-Based Arrangements. Under these arrangements, we are generally paid a fixed cash fee for performing the gathering and processing service. This fee is directly related to the volume of natural gas that flows through our systems and is not directly dependent on commodity prices. A sustained decline in commodity prices, however, could result in a decline in volumes and, thus, a decrease in our fee revenues. These arrangements provide stable cash flows, but minimal, if any, upside in higher commodity price environments.

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Percent-of-Proceeds Arrangements. Under these arrangements, we generally gather raw natural gas from producers at the wellhead, transport it through our gathering system, process it and sell the processed gas and NGLs at prices based on published index prices. In this type of arrangement, we retain the sales proceeds less amounts remitted to producers and the retained sales proceeds constitute our margin. These arrangements provide upside in high commodity price environments, but result in lower margins in low commodity price environments. Under these arrangements, our margins typically cannot be negative. The price paid to producers is based on an agreed percentage of one of the following: (1) the actual sale proceeds; (2) the proceeds based on an index price; or (3) the proceeds from the sale of processed gas or NGLs or both. Under this type of arrangement, our margin correlates directly with the prices of natural gas and NGLs (although there is often a fee-based component to these contracts in addition to the commodity sensitive component).

Keep-Whole Arrangements. Under these arrangements, we process raw natural gas to extract NGLs and pay to the producer the full thermal equivalent volume of raw natural gas received from the producer in processed gas or its cash equivalent. We are generally entitled to retain the processed NGLs and to sell them for our account. Accordingly, our margin is a function of the difference between the value of the NGLs produced and the cost of the processed gas used to replace the thermal equivalent value of those NGLs. The profitability of these arrangements is subject not only to the commodity price risk of natural gas and NGLs, but also to the price of natural gas relative to NGL prices. These arrangements can provide large profit margins in favorable commodity price environments, but also can be subject to losses if the cost of natural gas exceeds the value of its thermal equivalent of NGLs. Many of our keep-whole contracts include provisions that reduce our commodity price exposure, including (1) embedded discounts to the applicable natural gas index price under which we may reimburse the producer an amount in cash for the thermal equivalent volume of raw natural gas acquired from the producer, (2) fixed cash fees for ancillary services, such as gathering, treating, and compression, or (3) the ability to bypass processing in unfavorable price environments.

We also perform a producer service function. We purchase natural gas from producers or gas marketers at receipt points or plant tailgates and resell the natural gas to other market participants.

Transportation Contracts. We own a 49.99 percent general partner interest in HPC and a 49.9 percent interest in MEP. Both HPC and MEP, through their respective pipeline systems, provide natural gas transportation services pursuant to contracts with natural gas shippers. These contracts are primarily fee-based.

Compression Contracts. We generally enter into a new contract with respect to each distinct application for which we will provide contract compression services. Our compression contracts typically have an initial term between one and five years, after which the contract continues on a month-to-month basis until renewal or cancellation. Our customers generally pay a fixed monthly fee, or, in rare cases, a fee based on the volume of natural gas actually compressed. We are not responsible for acts of *force majeure* and our customers are generally required to pay our monthly fee for fixed fee contracts, or a minimum fee for throughput contracts, even during periods of limited or disrupted production. We are generally responsible for the costs and expenses associated with operation and maintenance of our compression equipment, such as providing necessary lubricants, although certain fees and expenses are the responsibility of the customers under the terms of their contracts. For example, all fuel gas is provided by our customers without cost to us, and in many cases customers are required to provide all water and electricity. We are also reimbursed by our customers for certain ancillary expenses such as trucking, crane and installation labor costs, depending on the terms agreed to in a particular contract.

Treating Contracts. Our treating contracts are application specific, having an initial term between one and three years, after which the contract continues on a month-to-month basis. Our customers generally pay a fixed monthly fee that not only includes the amine plant, but may also include additional equipment as required by the application. We are not responsible for acts of *force majeure* and our customers are generally required to pay our

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monthly fee even during periods of limited or disrupted production. We are generally responsible for the costs and expenses associated with the operation and maintenance of our treating equipment, such as providing the necessary makeup fluids, filters and charcoal. However, our customers are typically responsible for all fuel, gas and electricity without cost to us. Our fees include costs for all mobilization, installation, commissioning and startup.

COMPETITION

Gathering and Processing. We face strong competition in each region in acquiring new gas supplies. Our competitors in acquiring new gas supplies and in processing new natural gas supplies include major integrated oil companies, major interstate and intrastate pipelines and other natural gas gatherers that gather, process and market natural gas. Competition for natural gas supplies is primarily based on the reputation, efficiency and reliability of the gatherer and the pricing arrangements offered by the gatherer.

Many of our competitors have capital resources and control supplies of natural gas substantially greater than ours. Our major competitors for gathering and related services in each region include: