

Energy Transfer Partners, L.P.  
Form 10-Q  
August 08, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

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)

Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

**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) (zip code)

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

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 files). Yes  No

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  (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

At August 2, 2011, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 208,838,326 Common Units

**Table of Contents**

**FORM 10-Q**

**INDEX**

**Energy Transfer Partners, L.P. and Subsidiaries**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (Unaudited)**

<u>Consolidated Balance Sheets – June 30, 2011 and December 31, 2010</u>	1
<u>Consolidated Statements of Operations – Three and Six Months Ended June 30, 2011 and 2010</u>	3
<u>Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2011 and 2010</u>	4
<u>Consolidated Statement of Equity – Six Months Ended June 30, 2011</u>	5
<u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2011 and 2010</u>	6
<u>Notes to Consolidated Financial Statements</u>	7

<b><u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	30
---	----

<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	45
--	----

<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	47
---	----

**PART II OTHER INFORMATION**

<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	49
---	----

<b><u>ITEM 1A. RISK FACTORS</u></b>	49
-------------------------------------	----

<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	51
---	----

<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	51
---	----

<b>ITEM 4. [RESERVED]</b>	
---------------------------	--

<b><u>ITEM 5. OTHER INFORMATION</u></b>	51
---	----

<b><u>ITEM 6. EXHIBITS</u></b>	51
--------------------------------	----

<b><u>SIGNATURE</u></b>	54
-------------------------	----

**Table of Contents****Forward-Looking Statements**

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Partners, L.P. ( "Energy Transfer Partners" or the "Partnership" ) in periodic press releases and some oral statements of the Partnership's officials during presentations about the Partnership, include forward-looking statements. 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, forecast, may, will or similar expressions help identify forward-looking statements. Although the Partnership and its general partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections 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, the Partnership's actual results may vary materially from those anticipated, projected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management's control. For additional discussion of risks, uncertainties and assumptions, see Part II Other Information Item 1A. Risk Factors in this Quarterly Report on Form 10-Q as well as Part I Item 1A. Risk Factors in the Partnership's Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ( "SEC" ) on February 28, 2011.

**Definitions**

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

/d	per day
Bbls	barrels
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
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
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



**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

(unaudited)

	June 30, 2011	December 31, 2010
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 130,906	\$ 49,540
Marketable securities	1,996	2,032
Accounts receivable, net of allowance for doubtful accounts of \$6,443 and \$6,409 as of June 30, 2011 and December 31, 2010, respectively	520,482	503,129
Accounts receivable from related companies	100,327	53,866
Inventories	343,568	362,058
Exchanges receivable	17,693	21,823
Price risk management assets	12,028	13,706
Other current assets	137,026	115,269
<b>Total current assets</b>	<b>1,264,026</b>	<b>1,121,423</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>13,122,981</b>	<b>11,087,468</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>(1,471,509)</b>	<b>(1,286,099)</b>
	<b>11,651,472</b>	<b>9,801,369</b>
<b>ADVANCES TO AND INVESTMENTS IN AFFILIATES</b>	<b>30,284</b>	<b>8,723</b>
<b>LONG-TERM PRICE RISK MANAGEMENT ASSETS</b>	<b>7,102</b>	<b>13,948</b>
<b>GOODWILL</b>	<b>1,189,518</b>	<b>781,233</b>
<b>INTANGIBLES AND OTHER ASSETS, net</b>	<b>499,001</b>	<b>423,296</b>
<b>Total assets</b>	<b>\$ 14,641,403</b>	<b>\$ 12,149,992</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

(unaudited)

	June 30, 2011	December 31, 2010
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 353,902	\$ 301,997
Accounts payable to related companies	14,465	27,177
Exchanges payable	18,919	15,451
Accrued and other current liabilities	484,167	462,560
Current maturities of long-term debt	22,955	35,265
Total current liabilities	894,408	842,450
LONG-TERM DEBT, less current maturities	7,638,161	6,404,916
LONG-TERM PRICE RISK MANAGEMENT LIABILITIES	7,901	18,338
OTHER NON-CURRENT LIABILITIES	159,818	140,851
COMMITMENTS AND CONTINGENCIES (Note 13)		
<b>EQUITY:</b>		
General Partner	178,960	174,618
Limited Partners:		
Common Unitholders	5,149,913	4,542,656
Accumulated other comprehensive income	12,174	26,163
Total partners' equity	5,341,047	4,743,437
Noncontrolling interest	600,068	
Total equity	5,941,115	4,743,437
Total liabilities and equity	\$ 14,641,403	\$ 12,149,992

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except per unit data)

(unaudited)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
<b>REVENUES:</b>				
Natural gas operations	\$ 1,382,140	\$ 1,045,946	\$ 2,509,554	\$ 2,352,655
Retail propane	220,296	197,147	748,762	730,586
Other	25,659	24,613	57,356	56,446
<b>Total revenues</b>	<b>1,628,095</b>	<b>1,267,706</b>	<b>3,315,672</b>	<b>3,139,687</b>
<b>COSTS AND EXPENSES:</b>				
Cost of products sold natural gas operations	867,333	654,239	1,544,133	1,566,845
Cost of products sold retail propane	134,728	110,282	445,592	415,263
Cost of products sold other	6,567	6,336	13,360	13,614
Operating expenses	189,302	169,533	377,791	340,281
Depreciation and amortization	104,972	83,877	200,936	167,153
Selling, general and administrative	54,774	44,255	100,306	93,009
<b>Total costs and expenses</b>	<b>1,357,676</b>	<b>1,068,522</b>	<b>2,682,118</b>	<b>2,596,165</b>
<b>OPERATING INCOME</b>	<b>270,419</b>	<b>199,184</b>	<b>633,554</b>	<b>543,522</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest capitalized	(116,466)	(103,014)	(223,706)	(207,976)
Equity in earnings of affiliates	5,040	4,072	6,673	10,253
Gains (losses) on disposal of assets	(528)	1,385	(2,254)	(479)
Gains on non-hedged interest rate derivatives	2,111		3,890	
Allowance for equity funds used during construction	1,201	4,298	69	5,607
Impairment of investment in affiliate		(52,620)		(52,620)
Other, net	622	(5,893)	1,972	(4,860)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>162,399</b>	<b>47,412</b>	<b>420,198</b>	<b>293,447</b>
Income tax expense	5,783	4,569	16,380	10,493
<b>NET INCOME</b>	<b>156,616</b>	<b>42,843</b>	<b>403,818</b>	<b>282,954</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>8,388</b>		<b>8,388</b>	
<b>NET INCOME ATTRIBUTABLE TO PARTNERS</b>	<b>148,228</b>	<b>42,843</b>	<b>395,430</b>	<b>282,954</b>
GENERAL PARTNER'S INTEREST IN NET INCOME	105,892	90,599	213,431	190,598
<b>LIMITED PARTNERS INTEREST IN NET INCOME (LOSS)</b>	<b>\$ 42,336</b>	<b>\$ (47,756)</b>	<b>\$ 181,999</b>	<b>\$ 92,356</b>
	\$ 0.19	\$ (0.26)	\$ 0.89	\$ 0.48



## Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

BASIC NET INCOME (LOSS) PER LIMITED PARTNER  
UNIT

BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	208,615,415	186,649,074	201,259,140	187,531,919
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	\$ 0.19	\$ (0.26)	\$ 0.88	\$ 0.48
DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	209,675,032	186,649,074	202,364,488	188,362,188

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 156,616	\$ 42,843	\$ 403,818	\$ 282,954
Other comprehensive income (loss), net of tax:				
Reclassification to earnings of gains and losses on derivative instruments accounted for as cash flow hedges	(5,443)	(6,112)	(22,411)	(12,618)
Change in value of derivative instruments accounted for as cash flow hedges	2,298	(9,452)	8,457	24,634
Change in value of available-for-sale securities	(643)	(724)	(35)	(3,053)
	(3,788)	(16,288)	(13,989)	8,963
Comprehensive income	152,828	26,555	389,829	291,917
Less: Comprehensive income attributable to noncontrolling interest	8,388		8,388	
Comprehensive income attributable to partners	\$ 144,440	\$ 26,555	\$ 381,441	\$ 291,917

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF EQUITY****FOR THE SIX MONTHS ENDED JUNE 30, 2011**

(Dollars in thousands)

(unaudited)

	General Partner	Limited Partner Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance, December 31, 2010	\$ 174,618	\$ 4,542,656	\$ 26,163	\$	\$ 4,743,437
Distributions to partners	(209,102)	(359,505)			(568,607)
Units issued for cash		770,187			770,187
LDH Acquisition (See Note 3)				591,680	591,680
Distributions on unvested unit awards		(3,689)			(3,689)
Non-cash unit-based compensation expense, net of units tendered by employees for tax withholdings		20,092			20,092
Non-cash executive compensation	13	612			625
Other comprehensive loss, net of tax			(13,989)		(13,989)
Other, net		(2,439)			(2,439)
Net income	213,431	181,999		8,388	403,818
Balance, June 30, 2011	\$ 178,960	\$ 5,149,913	\$ 12,174	\$ 600,068	\$ 5,941,115

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(unaudited)

	Six Months Ended June 30,	
	2011	2010
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 403,818	\$ 282,954
Reconciliation of net income to net cash provided by operating activities:		
Impairment of investment in affiliate		52,620
Proceeds from termination of interest rate derivatives		15,395
Depreciation and amortization	200,936	167,153
Amortization of finance costs charged to interest	4,663	4,381
Non-cash unit-based compensation expense	20,164	14,600
Non-cash executive compensation expense	625	625
Distributions on unvested awards	(3,689)	(2,264)
Distributions in excess of equity in earnings of affiliates, net	1,885	20,378
Other non-cash	3,521	(3,855)
Changes in operating assets and liabilities, net of effects of acquisitions (see Note 4)	7,522	332,014
Net cash provided by operating activities	639,445	884,001
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash received	(1,948,611)	(153,385)
Capital expenditures (excluding allowance for equity funds used during construction)	(621,915)	(608,497)
Contributions in aid of construction costs	13,967	7,957
Advances to affiliates, net	(22,668)	(5,596)
Proceeds from the sale of assets	2,922	9,124
Net cash used in investing activities	(2,576,305)	(750,397)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	4,171,535	265,642
Principal payments on debt	(2,934,308)	(410,142)
Net proceeds from issuance of Limited Partner units	770,187	574,522
Capital contribution from General Partner		8,932
Capital contribution from noncontrolling interest	591,680	
Distributions to partners	(568,607)	(538,634)
Redemption of units		(23,299)
Debt issuance costs	(12,261)	
Net cash (used in) provided by financing activities	2,018,226	(122,979)
INCREASE IN CASH AND CASH EQUIVALENTS	81,366	10,625
CASH AND CASH EQUIVALENTS, beginning of period	49,540	68,183
CASH AND CASH EQUIVALENTS, end of period	\$ 130,906	\$ 78,808

Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Tabular dollar amounts, except per unit data, are in thousands)

(unaudited)

**1. OPERATIONS AND ORGANIZATION:**

Energy Transfer Partners, L.P. and its subsidiaries ( Energy Transfer Partners, the Partnership, we or ETP ) are managed by ETP's general partner, Energy Transfer Partners GP, L.P. (our General Partner or ETP GP ), which is in turn managed by its general partner, Energy Transfer Partners, L.L.C. ( ETP LLC ). Energy Transfer Equity, L.P. ( ETE ), a publicly traded master limited partnership, owns ETP LLC, the general partner of our General Partner. The consolidated financial statements of the Partnership presented herein include our operating subsidiaries described below.

**Business Operations**

In order to simplify the obligations of ETP, under the laws of several jurisdictions in which we conduct business, our activities are primarily conducted through our operating subsidiaries (collectively the Operating Companies ) as follows:

La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company ( ETC OLP ), a Texas limited partnership engaged in midstream and intrastate transportation and storage natural gas operations. ETC OLP owns and operates, through its wholly and majority-owned subsidiaries, natural gas gathering systems, intrastate natural gas pipeline systems and gas processing plants and is engaged in the business of purchasing, gathering, transporting, processing, and marketing natural gas and NGLs in the states of Texas, Louisiana, New Mexico, Utah, West Virginia and Colorado. Our intrastate transportation and storage operations primarily focus on transporting natural gas in Texas through our Oasis pipeline, ET Fuel System, East Texas pipeline and HPL System. Our midstream operations focus on the gathering, compression, treating, conditioning and processing of natural gas, primarily on or through our Southeast Texas System and North Texas System, and marketing activities. We also own and operate natural gas gathering pipelines and conditioning facilities in the Piceance and Uinta Basins of Colorado and Utah, respectively. ETC OLP also owns a 70% interest in Lone Star NGL LLC ( Lone Star ), which is described in Note 3.

Energy Transfer Interstate Holdings, LLC ( ET Interstate ), a Delaware limited liability company with revenues consisting primarily of fees earned from natural gas transportation services and operational gas sales. ET Interstate is the parent company of:

Transwestern Pipeline Company, LLC ( Transwestern ), a Delaware limited liability company engaged in interstate transportation of natural gas. Transwestern's revenues consist primarily of fees earned from natural gas transportation services and operational gas sales.

ETC Fayetteville Express Pipeline, LLC ( ETC FEP ), a Delaware limited liability company formed to engage in interstate transportation of natural gas.

ETC Tiger Pipeline, LLC ( ETC Tiger ), a Delaware limited liability company formed to engage in interstate transportation of natural gas.

ETC Compression, LLC ( ETC Compression ), a Delaware limited liability company engaged in natural gas compression services and related equipment sales.

## Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

Heritage Operating, L.P. ( H O L P ), a Delaware limited partnership primarily engaged in retail propane operations. Our retail propane operations focus on sales of propane and propane-related products and services. The retail propane customer base includes residential, commercial, industrial and agricultural customers.

Titan Energy Partners, L.P. ( Titan ), a Delaware limited partnership also engaged in retail propane operations. Our historical financial statements reflect the following reportable business segments: intrastate transportation and storage; interstate transportation; midstream; and retail propane and other retail propane related operations. In addition, our consolidated financial statements now reflect a new segment for NGL transportation and services as a result of our acquisition of the controlling interest in Lone Star on May 2, 2011.

---

## **Table of Contents**

### **Preparation of Interim Financial Statements**

The accompanying consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements and notes thereto of Energy Transfer Partners as of June 30, 2011 and for the three and six month periods ended June 30, 2011 and 2010, have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim consolidated financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Partnership's operations, maintenance activities and the impact of forward natural gas prices and differentials on certain derivative financial instruments that are accounted for using mark-to-market accounting. Management has evaluated subsequent events through the date the financial statements were issued.

In the opinion of management, all adjustments (all of which are normal and recurring) have been made that are necessary to fairly state the consolidated financial position of Energy Transfer Partners as of June 30, 2011, and the Partnership's results of operations and cash flows for the three and six months ended June 30, 2011 and 2010. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Energy Transfer Partners presented in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on February 28, 2011.

Certain prior period amounts have been reclassified to conform to the 2011 presentation. These reclassifications had no impact on net income or total partners' capital.

### **2. ESTIMATES:**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the accrual for and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The natural gas industry conducts its business by processing actual transactions at the end of the month following the month of delivery. Consequently, the most current month's financial results for our natural gas and NGL related operations are estimated using volume estimates and market prices. Any differences between estimated results and actual results are recognized in the following month's financial statements. Management believes that the estimated operating results represent the actual results in all material respects.

Some of the other significant estimates made by management include, but are not limited to, the timing of certain forecasted transactions that are hedged, the fair value of derivative instruments, useful lives for depreciation and amortization, purchase accounting allocations and subsequent realizability of intangible assets, fair value measurements used in the goodwill impairment test, market value of inventory, assets and liabilities resulting from the regulated ratemaking process, contingency reserves and environmental reserves. Actual results could differ from those estimates.

### **3. ACQUISITIONS:**

#### **LDH Acquisition**

On May 2, 2011, ETP-Regency Midstream Holdings, LLC ( ETP-Regency LLC ), a joint venture owned 70% by the Partnership and 30% by Regency Energy Partners LP ( Regency ), acquired all of the membership interest in LDH Energy Asset Holdings LLC ( LDH ), from Louis Dreyfus Highbridge Energy LLC ( Louis Dreyfus ) for approximately \$1.97 billion in cash (the LDH Acquisition ). The cash purchase price paid at closing is subject to post-closing adjustments. The Partnership contributed approximately \$1.38 billion to ETP-Regency LLC upon closing to fund its 70% share of the purchase price. Subsequent to closing, ETP-Regency LLC was renamed Lone Star.

Lone Star owns and operates a natural gas liquids storage, fractionation and transportation business. Lone Star's storage assets are primarily located in Mont Belvieu, Texas, and its West Texas Pipeline transports NGLs through an intrastate





**Table of Contents**

pipeline system that originates in the Permian Basin in west Texas, passes through the Barnett Shale production area in north Texas and terminates at the Mont Belvieu storage and fractionation complex. Lone Star also owns and operates fractionation and processing assets located in Louisiana. The acquisition of Lone Star significantly expands the Partnership's asset portfolio by adding an NGL platform with storage, transportation and fractionation capabilities. Additionally, this acquisition is expected to provide additional consistent fee-based revenues.

We accounted for the LDH Acquisition using the acquisition method of accounting. Lone Star's results of operations are primarily included in our NGL transportation and services segment, except for Lone Star's 20% investment in a processing plant. Regency's 30% interest in Lone Star is reflected as noncontrolling interest.

The following summarizes the preliminary assets acquired and liabilities assumed recognized at the acquisition date:

Total current assets	\$ 118,371
Property, plant and equipment <sup>(1)</sup>	1,438,704
Goodwill	408,285
Intangible assets	83,000
Other assets	157
	2,048,517
Total current liabilities	76,850
Other long-term liabilities	438
	77,288
Total consideration	1,971,229
Cash received	31,231
Total consideration, net of cash received	\$ 1,939,998

(1) Property, plant and equipment consists of the following:

Pipelines and equipment (65 years)	\$ 1,051,211
Natural gas liquids storage (40 years)	356,242
Construction work-in-process	31,251
Property, plant and equipment	\$ 1,438,704

**Pro Forma Results of Operations**

The following unaudited pro forma consolidated results of operations for the three and six months ended June 30, 2011 and 2010 are presented as if the LDH Acquisition had been completed on January 1, 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 1,664,702	\$ 1,348,418	\$ 3,424,261	\$ 3,303,380
Net income	152,874	40,904	403,728	284,959
Net income attributable to partners	143,881			