Energy Transfer Partners, L.P.
Form 10-K/A
December 12, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended August 31, 2005

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 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**73-1493906**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2838 Woodside Street, Dallas, Texas 75204

(Address of principal executive offices and zip code)

(214) 981-0700

(Registrant s telephone number, including area code)

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

Title of class	**Name of each exchange on which registered**
Common Units	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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 x 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value as of February 28, 2005, 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 approximately $1,976,900,000. 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 November 11, 2005, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 106,894,514 Common Units

Documents Incorporated by Reference: None

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We are filing this Amendment No. 1 on Form 10-K/A (the Amendment) to amend and supplement our Annual Report on Form 10-K for the fiscal year ended August 31, 2005, originally filed on November 14, 2005 (the Form 10-K). This Amendment is filed to provide the separate consolidated financial statements of our wholly-owned subsidiary, HPL Consolidation LP and its subsidiaries, included herein as Exhibit 99.3 in accordance with Rule 3-10 of Regulation S-X and to provide related consents of Independent Registered Public Accounting Firms included herein as Exhibits 23.1 and 23.2. HPL Consolidation LP became a wholly-owned subsidiary effective November 10, 2005. This Amendment does not reflect events occurring after November 14, 2005, or modify or update those disclosures that may have been affected by subsequent events. In addition, certifications from our Co-Chief Executive Officers and Chief Financial Officer, dated as of the filing of this Amendment, have been included as exhibits hereto.

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ENERGY TRANSFER PARTNERS, L.P.

2005 FORM 10-K ANNUAL REPORT

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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 the Partnership, include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are identified as any statement that does not related 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 ex 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 or 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 7 of this annual report.

ITEM 1. BUSINESS.

Overview

We are a publicly traded master limited partnership that is primarily engaged in the natural gas midstream and transportation and storage business through our operating subsidiary, La Grange Acquisition, L.P. (ETC OLP), and we also have a national retail propane marketing business in the United States through our operating subsidiary, Heritage Operating, L.P (HOLP). As of September 30, 2005, we had an equity market capitalization of approximately $3.8 billion, making us the third largest publicly traded master limited partnership in equity market capitalization.

Our midstream, transportation and storage business owns and operates approximately 11,700 miles of natural gas gathering and transportation pipelines, three natural gas processing plants, two of which are currently connected to our gathering systems, fourteen natural gas treating facilities and three natural gas storage facilities. Through ETC OLP, we conduct our natural gas midstream, transportation and storage business through two segments, the midstream segment and the transportation and storage segment. Our midstream segment focuses on the gathering, compression, treating, 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, the Barnett Shale in north Texas and the Bossier Sands in east Texas. Our 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 recently completed Fort Worth Basin Pipeline, our natural gas pipeline and storage assets that are referred to as the ET Fuel System, and our Houston Pipeline System, which are described below.

We are the fourth largest retail propane marketer in the United States, serving more than 700,000 customers from 315 customer service locations in 34 states. Our propane operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States.

We are a publicly traded Delaware limited partnership originally formed as Heritage Propane Partners, L.P. (Heritage), which consummated its initial public offering in June 1996. In January 2004, the propane operations of Heritage were combined with the natural gas midstream and transportation operations of La Grange Acquisition, L.P. conducted under the name Energy Transfer Company. We refer to this combination, along with the incurrence of debt and the issuance of equity securities of Heritage in connection with that combination, as the Energy Transfer Transactions . In March 2004, the combined entity s name was changed to Energy Transfer Partners, L.P. (the Partnership or ETP)

For the year ended August 31, 2005, we had revenues of approximately $6.2 billion, operating income of approximately $312.1 million and net income of approximately $349.4 million.

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

/d	per day
Bbls	barrels
Btu	British thermal unit, an energy measurement
Mcf	thousand cubic feet
MMBtu	million British thermal unit
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.

Energy Transfer Transactions

On January 20, 2004, Heritage and Energy Transfer Equity, L.P. (ETE), formerly known as La Grange Energy, L.P., completed a series of transactions whereby ETE contributed its subsidiary, ETC OLP, to Heritage in exchange for cash of $300.0 million less the amount of ETC OLP debt in excess of $151.5 million, less ETC OLP s accounts payable and other specified liabilities, plus agreed-upon capital expenditures paid by ETE relating to the ETC OLP business prior to closing, $433.9 million of Heritage Common and Class D Units, and the repayment of the ETC OLP debt of $151.5 million. These transactions and the other transactions described in the following paragraphs are referred to herein as the Energy Transfer Transactions. In conjunction with the Energy Transfer Transactions and prior to the contribution of ETC OLP to Heritage, ETC OLP distributed its cash and accounts receivables to ETE and an affiliate of ETE contributed an office building to ETC OLP. ETE also received 3,742,515 Special Units as consideration for the project it had in progress to construct the Bossier Pipeline now referred to as the East Texas Pipeline. The Special Units converted to Common Units upon the East Texas Pipeline becoming commercially operational and such conversion being approved by our Unitholders. The East Texas Pipeline became commercially operational on June 21, 2004, and the Unitholders approved the conversion of the Special Units at a special meeting held on June 23, 2004.

Simultaneously with the transactions described in the preceding paragraph, ETE obtained control of Heritage by acquiring all of the interests in Energy Transfer Partners GP, L.P., (ETP GP), formerly U.S. Propane, L.P., the General Partner of Heritage, and ETP GP s general partner, Energy Transfer Partners, L.L.C., (ETP LLC) formerly U.S. Propane, L.L.C., from subsidiaries of AGL Resources, Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc. for $30.0 million (the General Partner Transaction). In conjunction with the General Partner Transaction, ETP GP contributed its 1.0101% General Partner interest in HOLP to Heritage in exchange for an additional 1% General Partner interest in Heritage. Simultaneously with these transactions, Heritage purchased the outstanding stock of Heritage Holdings, Inc. (Heritage Holdings) for $100.0 million.

Concurrent with the Energy Transfer Transactions, ETC OLP borrowed $325.0 million from financial institutions and Heritage raised $355.9 million of gross proceeds net of underwriter s discount through the sale of 9,200,000 Common Units at an offering price of $38.69 per unit. The net proceeds were used to finance the Energy Transfer Transactions and for general partnership purposes.

Recent Acquisitions, Dispositions, and Expansion

Devon Midstream Assets Acquisition. On November 1, 2004, we announced the closing of the acquisition of certain midstream natural gas assets of Devon Energy Corporation for approximately $63.0 million in cash after adjustments. The assets, known as the Texas Chalk and Madison Systems, include approximately 1,800 miles of gathering and mainline pipeline systems, four natural gas treating plants, condensate stabilization facilities, fractionation facilities and the 80 MMcf/d Madison gas processing plant.

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Houston Pipeline System Acquisition. In January 2005, we acquired controlling interests in the Houston Pipeline System and related storage facilities from American Electric Power Corporation for approximately $825.0 million plus $132.0 million in natural gas inventory, subject to working capital adjustments. This transaction was financed by us through a combination of borrowings under our credit facilities and a private placement of $350.0 million of Common Units with institutional investors. In addition, we acquired working inventory of natural gas stored in the Bammel storage facility and financed it through a short-term borrowing from an affiliate. The total purchase price of approximately $825.0 million plus working capital, was allocated to the assets acquired and liabilities assumed. Under the terms of the transaction, we acquired all but a 2% limited partner interest in HPL Consolidation, L.P., the entity that owns the companies that own the Houston Pipeline System. The Houston Pipeline System is comprised of approximately 4,200 miles of intrastate pipeline with aggregate capacity of 2.4 Bcf/d, substantial storage facilities and related transportation assets.

Disposition of Elk City Gathering System. On April 14, 2005, we announced that we had closed the sale of our Oklahoma gathering, treating and processing assets, referred to as the Elk City system, to Atlas Pipeline Partners, L.P. The sale price of $191.6 million was used to repay a portion of the indebtedness incurred by us in our recent acquisition of the Houston Pipeline System and related storage facilities.

Fort Worth Basin Expansion. In May 2005, we completed construction of a 55-mile, 24-inch natural gas pipeline in the Fort Worth Basin that connects various pipelines in north Texas and provides transportation for natural gas production from the Barnett Shale producing area. This pipeline has a capacity in excess of 400 MMcf/d. The expansion cost approximately $53.0 million, which was financed entirely with cash from operations.

Recent Propane Acquisitions. During the fiscal year ended August 31, 2005, HOLP acquired substantially all of the assets of ten propane businesses. The aggregate purchase price for these acquisitions totaled $30.8 million.

Recent Expansion Projects. Our recently announced current construction projects are major expansion projects involving several pipeline projects that are expected to increase pipeline transportation access for natural gas producers in the Bossier Sands and Barnett Shale basins in east and north Texas to various markets throughout Texas as well as to markets in the eastern United States through interconnects with other intrastate and interstate pipelines. The larger of the two expansion projects involves the construction of approximately 264 miles of 42-inch pipeline and the addition of approximately 40,000 horsepower of compression at a cost of approximately $535.5 million. The 264 mile pipeline will extend from the intersection of the Fort Worth Basin and North Texas Pipeline near Cleburne, Texas to our Texoma pipeline and on to the Carthage, Texas market hub. This expansion project is supported by a 10-year agreement with XTO Energy, Inc. pursuant to which XTO Energy has agreed to transport specified volumes of natural gas on an annual basis and is entitled to transport additional volumes under similar terms. We expect this project to be completed by December, 2006, although segments of the project will become operational prior to that date. Our other major expansion project involves the construction, on a joint venture basis with Atmos Energy Corp., of a 30-inch pipeline in the north Fort Worth Basin area that will provide an additional outlet for natural gas from the Barnett Shale area to several market hubs. Our share of the estimated cost is approximately $29.3 million. These expansion projects will continue the integration of several pipeline systems and natural gas storage facilities, including the integration of our Katy Pipeline and our Southeast Texas System with the recently acquired ET Fuel System and Houston Pipeline System.

Loop of Fort Worth Basin Expansion. In addition, in response to additional activity in the Barnett Shale, we have approved the looping of the first 24 miles of our existing 55-mile, 24-inch pipeline in the Fort Worth Basin. The Fort Worth Basin Pipeline became commercially operational on May 26, 2005, at nearly full capacity. The looping of the first 24 miles of the system with another 24-inch pipeline and the addition of up to 12,000 horsepower of incremental compression will provide additional upstream capacities needed to accommodate the increased volumes in the Fort Worth Basin production area. The estimated cost to complete this project is approximately $32.1 million and is expected to be completed prior to the end of fiscal year 2006.

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Other Developments

On June 20, 2005, we completed a private sale of 1,640,000 of our Common Units to a group of our executive managers. The Common Units were sold at a price of $31.95 per Common Unit, reflecting a discount from the closing price on the last trading day of June 17, 2005. The price received was based on the fair market value and we believe is comparable to the price that we would have received from an unaffiliated purchaser in a large block equity transaction. The sale was approved by both the special committee of independent directors and the audit committee. The Common Units were issued pursuant to our effective shelf registration statement. Of the proceeds of approximately $52.1 million, $30.0 million was used to repay existing indebtedness and the balance was used for general partnership purposes.

On July 26, 2005, we completed a private sale of 3,000,000 of Common Units to an institutional investor. The Common Units were sold at a price of $35.20 per Common Unit. The Common Units were issued pursuant to our effective shelf registration statement. The proceeds of approximately $105.6 million were used to retire a portion of our outstanding indebtedness under our revolving credit facility and for general partnership purposes.

On July 29, 2005, we completed a registered exchange offer to exchange our 5.95% Senior Notes due February 1, 2015 issued in a Rule 144A private placement offering on January 18, 2005 (the 2015 Unregistered Notes), for a like amount of 5.95% Senior Notes due February 1, 2015 that are registered under the Securities Act of 1933, as amended.

On July 29, 2005, we completed a Rule 144A private placement offering of 5.65% Senior Notes due 2012 (the 2012 Unregistered Notes). The net proceeds of approximately $397.1 million were used to retire a portion of our outstanding indebtedness under our revolving credit facility, to fund our recently announced capital expansion projects and for general partnership purposes.

On November 10, 2005 the Partnership purchased the 2% limited partner interest in HPL that it did not already own, from AEP for $16.6 million in cash. As a result HPL became a wholly-owned subsidiary of ETC OLP.

ETC OLP

The operations of ETC OLP consist of the following:

Midstream and Transportation and Storage Operations. Our midstream and transportation and storage operations are primarily located in major natural gas producing regions of Texas. Our midstream and transportation and storage assets consist of our interests in approximately 11,700 miles of natural gas pipelines, three natural gas processing plants, two of which are connected to our gathering systems, 14 natural gas treating facilities and three natural gas storage facilities.

Our midstream segment consists of the following:

the Southeast Texas System, a 4,186-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, the Madison processing plant, and ten treating facilities. This system is connected to the Katy Hub through the 55-mile Katy Pipeline and is also connected to the Oasis Pipeline, as well as two power plants. The Southeast Texas system includes the assets acquired from Devon in November 2004.

The La Grange and Madison processing plants are cryogenic natural gas processing plants that processes the rich natural gas that flows through our system to produce residue gas and NGLs. The plants have a processing capacity of approximately 320 MMcf/d. Our ten treating facilities have an aggregate capacity of 740 MMcf/d. These treating facilities remove carbon dioxide and hydrogen sulfide from natural gas that is gathered into our system before the natural gas is introduced to transportation pipelines to ensure that the gas meets pipeline quality specifications.

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an interest in various midstream assets located in Texas and Louisiana, including the Vantex System, the Rusk County Gathering System, the Whiskey Bay System, the Dorado System and the Chalkley Transmission System. On a combined basis, these assets have a capacity of approximately 600 MMcf/d.

marketing operations through our producer services business, in which we market the natural gas that flows through our assets, referred to as on-system gas, and attracts 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.

Substantially all of our on-system marketing efforts involve natural gas that flows through either the Southeast Texas System or our transportation pipelines. 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 insights and valuable market intelligence, which may impact our expansion and acquisition strategy.

Our transportation and storage segment consists of the following:

the Oasis Pipeline, a 583-mile natural gas pipeline that directly connects the Waha Hub to the Katy Hub. The Oasis Pipeline is primarily a 36-inch diameter natural gas pipeline. 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 is currently flowing west-to-east with a current average throughput of approximately 1.6 Bcf/d. 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:

providing us with the ability to bypass the La Grange processing plant when processing margins are unfavorable;

providing natural gas on the Southeast Texas System access to other third party supply and market points and interconnecting pipelines; and

allowing us to bypass our 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.

The ET Fuel System, which serves some of the most active drilling areas in the United States, is comprised of approximately 2,000 miles of intrastate natural gas pipeline and related natural gas storage facilities. 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 strategically located near high-growth production areas and provides access to the Waha Hub, the Katy Hub and the Carthage Hub, the three major natural gas trading centers in Texas. The ET Fuel System has total system throughput capacity of approximately 1.3 Bcf/d of natural gas and total working storage capacity of 12.4 Bcf of natural gas. The ET Fuel System s current average throughput is approximately 1.1 MMcf/d. Prior to our acquisition of it in June 2004, the ET Fuel System had been operated primarily as a natural gas transmission pipeline system to supply natural gas from various natural gas producing areas to electric generating power plants of TXU Corp. and its affiliates, which we collectively referred to as TXU. In connection with our acquisition of the ET Fuel System, we entered into an eight-year transportation agreement with TXU Portfolio Management Company, LP, which we refer to as TXU Shipper, a subsidiary of

TXU, to transport a minimum of 115.6 MMBtu per year, subject to certain adjustments as defined in the agreement, and TXU Shipper has elected, effective January 1, 2006, to reduce the minimum amount of natural gas that

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we are obligated to transport to not less than 100.0 MMBtu per year. This is a one-time election allowed under the contract. We also entered into two eight-year natural gas storage agreements with TXU Shipper to store gas at two natural gas storage facilities that were part of the ET Fuel System. The ET Fuel System operates 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.

The East Texas Pipeline is a 148-mile natural gas pipeline that connects three treating facilities with our Southeast Texas System of which one treating facility is owned by us. This pipeline is the first phase of a multi-phased project that will service producers in East and North Central Texas providing access to the Katy Hub. The East Texas Pipeline expansion had an initial capacity of over 400 MMcf/d which increased to the current capacity of 675 MMcf/d with the addition of the Grimes Counter Compressor Station. The capacity will increase to 720 MMcf/d in February 2006, with the addition of approximately 5,000 horsepower of electric compression. Over 500 MMcf/d of pipeline capacity is contracted under long-term agreements with XTO Energy Inc. and other producers.

The Houston Pipeline System is comprised of approximately 4,200 miles of intrastate natural gas pipeline with an aggregate capacity of 2.4 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, 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 Houston Pipeline System is well situated to gather gas in many of the major gas producing areas in Texas. The Houston Pipeline System has a particularly strong presence in the key Houston Ship Channel and Katy Hub markets, which significantly contribute to the Houston Pipeline System s overall ability to play an important role in the Texas natural gas markets. The Houston Pipeline System is also well positioned to capitalize upon 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 its operation of the Bammel storage facility. The Bammel storage facility has a total working gas capacity of approximately 65 Bcf. The field has a peak withdrawal rate of 1.3 Bcf/d. The field also has considerable flexibility during injection periods in that the Houston Pipeline System has engineered an injection well configuration to provide for a 0.6 Bcf/d peak injection rate. The Bammel storage facility is strategically 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.

The recently completed Fort Worth Basin Pipeline, which became operational on May 26, 2005, is a 55-mile, 24-inch natural gas pipeline that connects our existing pipelines in north Texas and provides transportation for natural gas production from the Barnett Shale producing area. The completion of the Fort Worth Basin Pipeline is the first part of our previously disclosed expansion program that was implemented to integrate our 36-inch Katy Pipeline and Southeast Texas Pipeline assets with the ET Fuel System and the Houston Pipeline System.

Heritage Operating, L.P.

We believe we are the fourth largest retail propane marketer in the United States, serving more than 700,000 customers from 315 customer service locations in 34 states. Our operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. We are also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership in which we own a 60% interest that is engaged in wholesale distribution and in supplying our northern U.S. locations. Our propane business has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth.

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Following is a summary of the retail sales volumes per fiscal year for the last three fiscal years:

	For the Years Ended August 31,		
	2003	2004	2005
Retail Gallons Sold (in millions):	375.9	397.9	406.3

Business Strategy

Our goal is to increase 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 midstream and transportation and storage and propane businesses, we will be best positioned to achieve our objectives.

We expect that midstream and transportation and storage acquisitions, such as our recent acquisition of the ET Fuel System, the Devon midstream assets and the Houston Pipeline System, will be the primary focus of our acquisition strategy going forward, although we will also continue to pursue complementary propane acquisitions. We also anticipate that our midstream and transportation and storage business will provide internal growth projects of greater scale compared to those available in our propane business.

Midstream and Transportation and Storage 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, 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 services. These projects include expansion of existing systems, such as the East Texas Pipeline and the Fort Worth Basin project in North Texas, and construction of new facilities as discussed above. We expect that these expansions will lead to additional growth opportunities in this area.

Increase cash flow from fee-based businesses in our midstream segment. Excluding results from our marketing activities, the portion of our gross margin in the midstream segment attributable to fee-based business has continued to increase. We charge fees for providing midstream services, including gathering, compressing, treating, processing and transmitting natural gas for producers. These fee-based services are

dependent on throughput volume and are typically less affected by short-term changes in commodity prices. We intend to seek to increase the percentage of our midstream business conducted with third parties under fee-based arrangements in order to reduce exposure to changes in the prices of natural gas and NGLs. For example, we converted a contract with a major producer in the third fiscal quarter of 2005 from a commodity based contract to a fee-based contract.

Growth through acquisitions. As demonstrated by our recent acquisitions of the ET Fuel System, the Devon midstream assets and the Houston Pipeline System, we intend 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. We will also pursue midstream, transportation and storage asset acquisition opportunities in other regions of the U.S. with significant natural gas reserves and high levels of drilling activity or with growing demand for natural gas. We believe that we will be well positioned to benefit from the additional acquisition opportunities likely to arise as a result of the ongoing divestiture of midstream assets by large industry participants.

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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 the fourth largest propane marketers provides us a solid foundation to continue our acquisition growth strategy through consolidation. We believe that the fragmented nature of the propane industry will continue to provide opportunities for growth through the acquisition of propane businesses that complement our existing asset base. In addition to focusing on propane acquisition candidates in our existing areas of operations, we will also consider core acquisitions in other higher-than-average population growth areas in which we have no presence in order to further reduce the impact adverse weather patterns and economic downturns in any one region may have on our overall operations.

Maintain low-cost, decentralized operations. We focus on controlling costs, and we attribute our low overhead costs primarily to our decentralized structure. By delegating all customer billing and collection activities to the customer service location level, as well as delegating other responsibilities to the operating level, we have been able to operate without a large corporate staff. In addition, our customer service location level incentive compensation program encourages employees at all levels to control costs while increasing revenues.

Competitive Strengths

We believe that we are well-positioned to compete in both the natural gas midstream and transportation and storage and propane industries based on the following strengths:

Our enhanced access to capital and financial flexibility will allow us to compete more effectively in acquiring assets and expanding our systems. We expect that our recently obtained credit facility and other recent financing transactions will increase our financial flexibility and enhance our access to capital. We believe this will allow us to implement our operating strategies in a timely manner and more effectively compete in acquiring additional assets or expanding our existing systems.

Our experienced management team has an established reputation as highly-effective, strategic operators within our operating segments. In the past, the management teams of each of our operating segments have been successful in identifying and consummating strategic acquisitions to enhance our businesses. In addition, our management team has a substantial equity ownership in us and is motivated through performance-based incentive compensation programs to effectively and efficiently manage our business operations.

Midstream and Transportation and Storage Business Strengths

We have a significant market presence in each of our operating areas. We have a significant market presence in each of our operating areas, which are located in major natural gas producing regions of the United States.

Our assets provide marketing flexibility through our access to numerous markets and customers. Our Oasis Pipeline combined with the Southeast Texas System provides our customers direct access to the Waha and Katy Hubs and to virtually all other market areas in the United States via interconnections with major intrastate and interstate natural gas pipelines. Furthermore, our Oasis Pipeline is tied directly or indirectly to a number of major power generation facilities in Texas as well as several industrial and utility end-users. With the acquisition of the ET Fuel System in June 2004, the HPL acquisition in January 2005, and the completion of the East Texas Pipeline system and the Fort Worth Basin pipeline, we have also enhanced our opportunities with additional power plants, industrial users, municipals, and co-operatives, and the added storage facilities add flexibility for fuel management services.

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Our Southeast Texas System has additional capacity, which provides opportunities for higher levels of utilization. We expect to connect new supplies of natural gas volumes by utilizing the available capacity on the Southeast Texas System. The available capacity also provides us with opportunities to extend the Southeast Texas System to additional natural gas producing areas, such as east Texas through the East Texas Pipeline.

Our ability to bypass our La Grange processing plant reduces our commodity price risk. A significant benefit of our ownership of the Oasis Pipeline is that we can elect not to process natural gas at our La Grange processing plant when processing margins (or the difference between NGL sales prices and the cost of natural gas) are unfavorable. Instead of processing the natural gas, we are able to deliver natural gas meeting pipeline quality specifications by blending rich gas, or gas with a high NGL content, from the Southeast Texas System with lean gas, or gas with a low NGL content, transported on the Oasis Pipeline. This enables us to sell the blended natural gas for a higher price than we would have been able to realize upon the sale of NGLs if we had to process the natural gas to extract NGLs.

Our acquisition of the Houston Pipeline System enables us to engage in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. The Bammel natural gas storage facility, acquired when we purchased the Houston Pipeline System, has a total working gas capacity of approximately 65 Bcf. The reservoir has a peak withdrawal rate of 1.3 Bcf/d and also has considerable flexibility during injection periods in that the Houston Pipeline System has engineered an injection well configuration to provide for a 600 MMcf/d peak injection rate. Therefore, we are able to purchase physical natural gas and then sell financial contracts at a price sufficient to cover our carrying costs and provide for a gross profit margin. In addition, the Bammel natural gas storage facility is strategically 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.

Propane Business Strengths

Geographically diverse retail propane network. We believe our geographically diverse network of retail propane assets reduces our exposure to unfavorable weather patterns and economic downturns in any one geographic region, thereby reducing the volatility of our cash flows.

Experience in identifying, evaluating and completing acquisitions. We follow a disciplined acquisition strategy that concentrates on propane companies that (1) are located in geographic areas experiencing higher-than-average population growth, (2) provide a high percentage of sales to residential customers, (3) have a strong reputation for quality service, and (4) own a high percentage of the propane tanks used by their customers. In addition, we attempt to capitalize on the reputations of the companies we acquire by maintaining local brand names, billing practices and employees, thereby creating a sense of continuity and minimizing customer loss. We believe that this strategy has also helped to make it an attractive buyer for many propane acquisition candidates from the seller s viewpoint.

Operations that are focused in areas experiencing higher-than-average population growth. We believe that our concentration in higher-than-average population growth areas provides a strong economic foundation for expansion through acquisitions and internal growth. We do not believe that we are more vulnerable than our competitors to displacement by natural gas distribution systems because the majority of our areas of operations are located in rural areas where natural gas is not readily available.

Low-cost administrative infrastructure. We are dedicated to maintaining a low-cost operating profile and have a successful track record of aggressively pursuing opportunities to reduce costs. Of the 2,642 full-time propane employees as of October 31, 2005, only 110, or approximately 4.2%, were general and administrative.

Decentralized operating structure and entrepreneurial workforce. We believe that our decentralized propane operations foster an entrepreneurial corporate culture by: (1) having operational decisions made at the customer service location and operating level, (2) retaining billing, collection and pricing responsibilities at the local and operating level, and (3) rewarding employees for achieving financial targets at the local level.

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Midstream Natural Gas 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 a 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 the Energy Information Administration, or the EIA, total domestic consumption of natural gas is expected to increase by over 2.2% per annum, on average, to 27.1 Tcf by 2010, from an estimated 22.2 Tcf consumed in 2001, representing approximately 25% of all total end-user energy requirements by 2010. During the last five years, the United States has on average consumed approximately 22.6 Tcf per year, with average domestic production of approximately 19.1 Tcf per year during the same period. The industrial and electricity generation sectors currently account for the largest usage of natural gas 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 would 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 high 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.

Natural gas transportation. Natural gas transportation pipelines receive natural gas from other mainline transportation pipelines and gathering systems and deliver the natural gas to industrial end-users, utilities and other pipelines.

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Propane Industry Overview

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative forms of stand-alone energy sources. Retail propane use falls into three broad categories: (1) residential applications, (2) industrial, commercial and agricultural applications and (3) other retail applications, including motor fuel sales. In our wholesale operations, we sell propane principally to governmental agencies and industrial end-users.

Propane is extracted from natural gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is naturally colorless and odorless. An odorant is added to allow its detection. Like natural gas, propane is a clean burning fuel and is considered an environmentally preferred energy source.

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. We compete for customers against suppliers of electricity, natural gas and fuel oil. Competition from alternative energy sources has been increasing as a result of reduced utility regulation. Except for certain industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a significantly less expensive source of energy than propane. The gradual expansion of natural gas distribution systems in the United States has resulted in the availability of natural gas in many areas that previously depended upon propane. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, we believe that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Even though propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to another. Based upon industry publications, propane accounts for six and one-half percent of household energy consumption in the United States.

In addition to competing with alternative energy sources, we compete with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large multi-state propane marketers, thousands of smaller local independent marketers and farm cooperatives. Most of our customer service locations compete with five or more marketers or distributors. Each retail distribution outlet operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. The typical retail distribution outlet generally has an effective marketing radius of approximately 50 miles although in certain rural areas the marketing radius may be extended by satellite locations.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. We believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors and give us a competitive advantage over such retailers.

The wholesale propane business is highly competitive. For fiscal year 2005, our domestic wholesale operations (excluding M-P Energy Partnership) accounted for only 3.0% of our total gallons sold in the United States and approximately 1.2% of our gross profit. We do not emphasize wholesale operations, but believe that limited wholesale activities enhance our ability to supply our retail operations.

The Midstream and Transportation and Storage Segments

Competition

The business of providing natural gas gathering, transmission, treating, transporting, storing and marketing services is highly competitive. Since pipelines are generally the only practical mode of transportation for natural gas over land, the most significant competitors of our transportation and storage segment are other pipelines. Pipelines typically compete with each other based on location, capacity, price and reliability.

We face competition with respect to retaining and obtaining significant natural gas supplies under terms favorable to us for the gathering, treating and marketing portions of our business. Our competitors include major

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integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport and market natural gas. Many of our competitors, such as major oil and gas and pipeline companies, have capital resources and control supplies of natural gas substantially greater than ours.

In marketing natural gas, we have numerous competitors, including marketing affiliates of interstate pipelines, major integrated oil companies, and local and national natural gas gatherers, brokers and marketers of widely various sizes, financial resources and experience. Local utilities and distributors of natural gas are, in some cases, engaged directly, and through affiliates, in marketing activities that compete with our marketing operations.

Credit Risk and Customers

We have a concentration of customers in natural gas transmission, distribution and marketing as well as industrial end-users and customers in the refining and petrochemical industries. We are diligent in attempting to ensure that we issue credit to credit-worthy customers. However, our purchase and resale of gas exposes us to significant credit risk, as the margin on any sale is generally a very small percentage of the total sale price. Therefore, a credit loss can be very large relative to our overall profitability.

During the year ended August 31, 2005, we had one customer, BP Energy Company, that individually accounted for more than 10% of midstream and transportation and storage segment revenues. While this customer represents a significant percentage of midstream and transportation and storage segment revenues, the lost revenue from this customer would not have a material impact on our results of operations.

Regulation

Regulation by FERC of Interstate Natural Gas Pipelines. Under the Natural Gas Act (NGA), the Federal Energy Regulatory Commission (FERC) generally regulates the transportation of natural gas in interstate commerce. For FERC regulatory purposes, transportation service includes storage service. We do not own any interstate natural gas transportation facilities, so FERC does not directly regulate any of our pipeline operations pursuant to its jurisdiction under the NGA. However, FERC s regulation influences certain aspects of our business and the market for our products. In general, FERC has authority over natural gas companies that provide natural gas pipeline transportation services in interstate commerce and its authority to regulate those services includes:

- the certification and construction of new facilities;
- the extension or abandonment of services and facilities;
- the maintenance of accounts and records;
- the acquisition and disposition of facilities;

the initiation and discontinuation of services; and

various other matters.

Failure to comply with the NGA can result in the imposition of administrative, civil and criminal remedies.

In recent years, FERC has pursued pro-competitive policies in its regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipelines rates and rules and policies that may affect rights of access to natural gas transportation capacity.

Intrastate Pipeline Regulation. Our intrastate natural gas pipeline operations generally are not subject to rate regulation by FERC, but they are subject to regulation by various agencies in Texas, principally the Texas Railroad Commission (TRRC), where they are located. However, to the extent that our intrastate pipeline systems transport natural gas in interstate commerce, the rates, terms and conditions of such transportation service are subject to FERC jurisdiction under Section 311 of the Natural Gas Policy Act (NGPA), which regulates, among other things, the provision of transportation services by an intrastate natural gas pipeline on behalf of a local distribution company or an interstate natural gas pipeline. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest, and the terms and conditions of service set forth in the pipeline s statement of operating conditions are subject to FERC review and approval. Failure to observe the service limitations applicable to transportation and storage services under Section 311, failure to comply with the rates approved by FERC for Section 311 service, and failure to comply

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with the terms and conditions of service established in the pipeline s FERC approved Statement of Operating Conditions could result in an alteration of jurisdictional status, and/or the imposition of administrative, civil and criminal remedies.

Our intrastate pipeline and storage operations in Texas are subject to the Texas Utilities Code, as implemented by the TRRC. Generally, the TRRC is vested with authority to ensure that rates, operations and services of gas utilities, including intrastate pipelines, are just and reasonable and not discriminatory. The TRRC has authority to ensure that rates charged by intrastate pipelines for natural gas sales or transportation services are just and reasonable. The rates we charge for transportation services are deemed just and reasonable under Texas law unless challenged in a complaint. We cannot predict whether such a complaint will be filed against us or whether the TRRC will change its regulation of these rates. Failure to comply with the Texas Utilities Code can result in the imposition of administrative, civil and criminal remedies.

Gathering Pipeline Regulation. Section 1(b) of the NGA exempts natural gas gathering facilities from the jurisdiction of FERC under the NGA. We own a number of natural gas pipelines in Texas and Louisiana that we believe meet the traditional tests FERC has used to establish a pipeline s status as a gatherer not subject to FERC jurisdiction. However, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of substantial, on-going litigation, so the classification and regulation of our gathering facilities are subject to change based on future determinations by FERC and the courts. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements and in some instances complaint-based rate regulation.

In Texas, our gathering facilities are subject to regulation by the TRRC under the Texas Utilities Code in the same manner as described above for our intrastate pipeline facilities. Louisiana s Pipeline Operations Section of the Department of Natural Resources Office of Conservation is generally responsible for regulating intrastate pipelines and gathering facilities in Louisiana and has authority to review and authorize natural gas transportation transactions and the construction, acquisition, abandonment and interconnection of physical facilities. Historically, apart from pipeline safety, it has not acted to exercise this jurisdiction respecting gathering facilities. Our Chalkley System is regulated as an intrastate transporter, and the Office of Conservation has determined that our Whiskey Bay System is a gathering system.

We are subject to state ratable take and common purchaser statutes in all of the states in which we operate. The ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom it contracts to purchase or transport natural gas.

Natural gas gathering may receive greater regulatory scrutiny at both the state and Federal levels now that FERC has taken a more light-handed approach to regulation of the gathering activities of interstate pipeline transmission companies and a number of such companies have transferred gathering facilities to unregulated affiliates. For example, the TRRC has approved changes to its regulations governing transportation and gathering services performed by intrastate pipelines and gatherers, which prohibit such entities from unduly discriminating in favor of their affiliates. Many of the producing states have adopted some form of complaint-based regulation that generally allows natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination. Our gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services. Our gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement and management of gathering facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. We cannot predict what effect, if any, such changes might have on our operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

Sales of Natural Gas. Sales for resale of natural gas in interstate commerce made by intrastate pipelines or their affiliates are subject to FERC regulation unless the gas is produced by the pipeline or affiliate. Under current federal rules, however, the price at which we sell natural gas currently is not regulated, insofar as the interstate

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market is concerned and, for the most part, is not subject to state regulation. Effective as of January 12, 2004, the FERC s rules require pipelines (including intrastate pipelines) and their affiliates who sell gas in interstate commerce subject to FERC s jurisdiction to adhere to a code of conduct prohibiting market manipulation and transactions that have no legitimate business purpose or result in prices not reflective of legitimate forces of supply and demand. Those who violate such code of conduct may be subject to suspension or loss of authorization to perform such sales, disgorgement of unjust profits, or other appropriate non-monetary remedies imposed by FERC. FERC denied rehearing of these rules on May 19, 2004, but the rules are still subject to possible court appeals. We cannot predict the outcome of these further proceedings, but do not believe we will be affected materially differently from other intrastate gas pipelines and their affiliates. In addition, our sales of natural gas are affected by the availability, terms and cost of pipeline transportation. As noted above, the price and terms of access to pipeline transportation are subject to extensive federal and state regulation. FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to FERC s jurisdiction. These initiatives also may affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition amo