

Energy Transfer Partners, L.P.  
Form 10-Q  
July 10, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended May 31, 2006

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**  
(state or other jurisdiction or  
incorporation or organization)

**73-1493906**  
(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)

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.

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Yes  No

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

Large accelerated filer  Accelerated filer  Non accelerated filer

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

Yes  No

At July 7, 2006, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P.	108,156,849	Common Units
	2,570,150	Class F Units

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**FORM 10-Q**

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### **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 Energy Transfer Partners 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. Statements using words such as anticipate, believe, intend, project, plan, continue, estimate, forecast, may, will, or similar expressions help identify forward-looking statements. Although the Partnership believes such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that every objective will be reached.

Actual results may differ materially from any results projected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks, difficult to predict, and beyond management's control. For additional discussion of risks, uncertainties and assumptions, see the Partnership's Annual Report on Form 10-K as amended on 10-K/A for the fiscal year ended August 31, 2005 filed with the Securities and Exchange Commission on November 14, 2005 and December 12, 2005, respectively.

### **Definitions**

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
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****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except unit data)

(unaudited)

	May 31,	August 31,
	2006	2005
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 26,645	\$ 24,914
Marketable securities	4,510	3,452
Accounts receivable, net of allowance for doubtful accounts	494,459	847,028
Accounts receivable from related parties	2,361	4,479
Deposits paid to vendors	85,177	65,034
Inventories	456,518	302,893
Price risk management assets	72,201	138,961
Prepaid expenses and other assets	56,088	71,259
<b>Total current assets</b>	<b>1,197,959</b>	<b>1,458,020</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>2,903,835</b>	<b>2,440,565</b>
<b>LONG-TERM PRICE RISK MANAGEMENT ASSETS</b>	<b>5,143</b>	<b>41,687</b>
<b>INVESTMENT IN AFFILIATES</b>	<b>36,985</b>	<b>37,353</b>
<b>GOODWILL</b>	<b>325,414</b>	<b>324,019</b>
<b>INTANGIBLES AND OTHER ASSETS, net</b>	<b>122,164</b>	<b>125,262</b>
<b>Total assets</b>	<b>\$ 4,591,500</b>	<b>\$ 4,426,906</b>

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

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

(in thousands, except unit data)

(unaudited)

	May 31, 2006	August 31, 2005
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>		
<b>CURRENT LIABILITIES:</b>		
Working capital facility	\$	\$ 17,026
Accounts payable	513,206	818,775
Accounts payable to related parties	5	1,073
Customer deposits	13,374	88,038
Price risk management liabilities	33,388	104,772
Accrued and other current liabilities	181,831	170,131
Accrued distribution payable	100,678	
Accrued interest	27,358	9,647
Income taxes payable	1,221	2,063
Deferred income taxes	4,061	
Current maturities of long-term debt	39,710	39,349
Total current liabilities	914,832	1,250,874
LONG-TERM DEBT, less current maturities	1,793,256	1,675,705
LONG-TERM PRICE RISK MANAGEMENT LIABILITIES	363	30,517
LONG-TERM AFFILIATED PAYABLE		2,005
NONCURRENT DEFERRED INCOME TAXES	108,741	111,185
OTHER NONCURRENT LIABILITIES	9,740	13,284
MINORITY INTERESTS	2,051	17,144
COMMITMENTS AND CONTINGENCIES (Note 12)	2,828,983	3,100,714
<b>PARTNERS' CAPITAL:</b>		
General Partner	41,752	49,384
Common Unitholders (108,155,516 and 106,889,904 units authorized, issued and outstanding at May 31, 2006 and August 31, 2005, respectively)	1,563,281	1,362,125
Class C Unitholders (1,000,000 units authorized, issued and outstanding at May 31, 2006 and August 31, 2005)	3,599	
Class E Unitholders (8,853,832 units authorized, issued and outstanding at May 31, 2006 and August 31, 2005 held by subsidiary and reported as treasury units)		
Class F Unitholders (2,570,150 and 0 units authorized, issued and outstanding at May 31, 2006 and August 31, 2005, respectively)	93,352	
Accumulated other comprehensive income (loss)	60,533	(85,317)
Total partners' capital	1,762,517	1,326,192
Total liabilities and partners' capital	\$ 4,591,500	\$ 4,426,906

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



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

(in thousands, except per unit and unit data)

(unaudited)

	<b>Three Months Ended May 31, 2006</b>	<b>Three Months Ended May 31, 2005</b>	<b>Nine Months Ended May 31, 2006</b>	<b>Nine Months Ended May 31, 2005</b>
<b>REVENUES:</b>				
Midstream and transportation and storage	\$ 1,211,549	\$ 1,849,518	\$ 5,503,385	\$ 3,673,730
Propane and other	208,786	182,231	783,386	662,061
<b>Total revenues</b>	<b>1,420,335</b>	<b>2,031,749</b>	<b>6,286,771</b>	<b>4,335,791</b>
<b>COSTS AND EXPENSES:</b>				
Cost of products sold, midstream and transportation and storage	1,020,692	1,708,917	4,765,113	3,359,391
Cost of products sold, propane and other	126,675	108,081	481,712	396,687
Operating expenses	102,969	90,372	305,336	224,122
Depreciation and amortization	28,149	25,229	84,076	67,123
Selling, general and administrative	23,732	20,282	79,986	42,919
<b>Total costs and expenses</b>	<b>1,302,217</b>	<b>1,952,881</b>	<b>5,716,223</b>	<b>4,090,242</b>
<b>OPERATING INCOME</b>	<b>118,118</b>	<b>78,868</b>	<b>570,548</b>	<b>245,549</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(13,674)	(26,407)	(70,609)	(66,762)
Equity in losses of affiliates	(150)	(307)	(318)	(161)
Gain (loss) on disposal of assets	22	(138)	556	(665)
Loss on extinguishment of debt		(1,554)		(9,550)
Interest income and other, net	9,672	(354)	12,933	14
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS</b>	<b>113,988</b>	<b>50,108</b>	<b>513,110</b>	<b>168,425</b>
Income tax expense	1,981	3,182	28,406	7,341
<b>INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS</b>	<b>112,007</b>	<b>46,926</b>	<b>484,704</b>	<b>161,084</b>
Minority interests	(95)	(422)	(2,199)	(937)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>111,912</b>	<b>46,504</b>	<b>482,505</b>	<b>160,147</b>
<b>DISCONTINUED OPERATIONS:</b>				
Income from discontinued operations		930		5,498
Gain on sale of discontinued operations, net of income tax expense		142,076		142,076
<b>Total income from discontinued operations</b>		<b>143,006</b>		<b>147,574</b>
<b>NET INCOME</b>	<b>111,912</b>	<b>189,510</b>	<b>482,505</b>	<b>307,721</b>
<b>GENERAL PARTNER'S INTEREST IN NET INCOME</b>	<b>30,109</b>	<b>15,124</b>	<b>78,287</b>	<b>31,669</b>



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LIMITED PARTNERS INTEREST IN NET INCOME	\$	81,803	\$	174,386	\$	404,218	\$	276,052
<b>BASIC NET INCOME PER LIMITED PARTNER UNIT</b>								
Limited Partners income from continuing operations	\$	0.67	\$	0.28	\$	2.79	\$	1.16
Limited Partners income from discontinued operations				0.85				1.07
NET INCOME PER LIMITED PARTNER UNIT (see Note 7)	\$	0.67	\$	1.13	\$	2.79	\$	2.23
<b>BASIC AVERAGE NUMBER OF UNITS OUTSTANDING</b>								
		110,658,305		102,244,572		108,466,616		95,251,619
<b>DILUTED NET INCOME PER LIMITED PARTNER UNIT</b>								
Limited Partners income from continuing operations	\$	0.67	\$	0.28	\$	2.78	\$	1.16
Limited Partners income from discontinued operations				0.85				1.07
NET INCOME PER LIMITED PARTNER UNIT (see Note 7)	\$	0.67	\$	1.13	\$	2.78	\$	2.23
<b>DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING</b>								
		110,921,227		102,483,138		108,718,490		95,478,563

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

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

(in thousands)

(unaudited)

	<b>Three Months Ended May 31, 2006</b>	<b>Three Months Ended May 31, 2005</b>	<b>Nine Months Ended May 31, 2006</b>	<b>Nine Months Ended May 31, 2005</b>
Net income	\$ 111,912	\$ 189,510	\$ 482,505	\$ 307,721
Other comprehensive income before tax:				
Reclassification adjustment for (gains) losses on derivative instruments included in net income accounted for as hedges, before tax benefits of \$34, and \$315 for the three and nine months ended May 31, 2006, respectively.	(2,855)	(1,890)	(45,286)	8,845
Change in value of derivative instruments accounted for as hedges, before tax expense of \$232 and \$1,331 for the three and nine months ended May 31, 2006, respectively .	25,358	7,736	191,100	10,114
Change in value of available-for-sale securities, before tax expense of \$6, and tax expense of \$7 for the three and nine months ended May 31, 2006, respectively.	935	(1,032)	1,059	194
Income tax expense related to items of other comprehensive income	(204)		(1,023)	
<b>Comprehensive income</b>	<b>\$ 135,146</b>	<b>\$ 194,324</b>	<b>\$ 628,355</b>	<b>\$ 326,874</b>
Reconciliation of Accumulated Other Comprehensive Income:				
Balance, beginning of period	\$ 37,299	\$ 14,371	\$ (85,317)	\$ 32
Current period reclassification to earnings	(2,821)	(1,890)	(44,971)	8,845
Current period change	26,055	6,704	190,821	10,308
Balance, end of period	\$ 60,533	\$ 19,185	\$ 60,533	\$ 19,185

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

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL**

For the nine months ended May 31, 2006

(in thousands, except unit data)

(unaudited)

	Number of		Number of				Accumulated Other Comprehensive		Total
	Common	Class F	General Partner	Common	Class C	Class E	Class F	Income (Loss)	
	Units	Units	Partner	Common	Class C	Class E	Class F	Income (Loss)	Total
<b>Balance, August 31, 2005</b>	106,889,904		\$ 49,384	\$ 1,362,125	\$	\$	\$	\$ (85,317)	\$ 1,326,192
Unit distribution			(88,703)	(244,721)			(3,148)		(336,572)
Issuance of restricted Common Units	95,807								
Issuance of Common and Class F units to Energy Transfer Equity, L.P.	1,069,850	2,570,150		38,907			93,476		132,383
Issuance of Common Units in connection with certain acquisitions	99,955			4,000					4,000
General Partner capital contribution			2,784						2,784
Net change in accumulated other comprehensive income per accompanying statement								145,850	145,850
Deferred compensation on restricted units and long-term incentive plan				5,375					5,375
Net income			78,287	397,595	3,599		3,024		482,505
<b>Balance, May 31, 2006</b>	108,155,516	2,570,150	\$ 41,752	\$ 1,563,281	\$ 3,599	\$	\$ 93,352	\$ 60,533	\$ 1,762,517

The accompanying notes are an integral part of this condensed consolidated financial statement.

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

(in thousands)

(unaudited)

	<b>Nine Months Ended</b>	
	<b>May 31, 2006</b>	<b>May 31, 2005</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 527,795</b>	<b>\$ 295,685</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash acquired	(35,949)	(1,117,864)
Working capital settlement on prior year acquisitions	19,653	
Capital expenditures	(510,572)	(118,577)
Proceeds from the sale of discontinued operations		191,606
Proceeds from the sale of assets	4,551	3,610
Cash invested in subsidiaries		(51)
<b>Net cash used in investing activities</b>	<b>(522,317)</b>	<b>(1,041,276)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	1,585,057	2,071,393
Principal payments on debt	(1,486,700)	(1,583,487)
Proceeds from borrowing from affiliates		174,624
Payments on borrowing from affiliates		(174,624)
Debt issuance costs	(1,295)	(15,951)
Capital contribution from General Partner	2,702	7,194
Equity offering	132,383	349,749
Cash distributions to unitholders	(235,894)	(143,732)
<b>Net cash (used in) provided by financing activities</b>	<b>(3,747)</b>	<b>685,166</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,731</b>	<b>(60,425)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>24,914</b>	<b>81,745</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 26,645</b>	<b>\$ 21,320</b>
<b>NONCASH FINANCING ACTIVITIES:</b>		
Issuance of Common Units in connection with certain acquisition	\$ 4,000	\$ 2,500
Notes payable incurred on non-compete agreements	\$ 2,361	\$ 1,149

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

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollar amounts in thousands, except per unit data)

(unaudited)

**1. OPERATIONS AND ORGANIZATION:**

The accompanying condensed consolidated balance sheet as of August 31, 2005, which has been derived from audited financial statements, and the unaudited interim financial statements and notes thereto of Energy Transfer Partners, L.P., and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim consolidated financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. However, the Partnership 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.

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 and subsidiaries as of May 31, 2006, and the results of operations for the three-month and nine month periods ended May 31, 2006 and 2005, and cash flows for the nine-month periods ended May 31, 2006 and 2005. The unaudited interim condensed 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 fiscal year ended August 31, 2005, as amended on Form 10-K/A as filed with the Securities and Exchange Commission on November 14, 2005, and December 12, 2005, respectively.

Certain prior period amounts have been reclassified to conform to the classification presentation in the 2006 condensed financial statements. These reclassifications have no impact on net income or total partners' capital.

**Business Operations**

In order to simplify the obligations of Energy Transfer Partners under the laws of several jurisdictions in which it conducts business, the Partnership's activities are conducted through two wholly-owned subsidiary operating partnerships, La Grange Acquisition, L.P. which conducts business under the assumed name of Energy Transfer Company (ETC OLP), a Texas limited partnership which is engaged in midstream and transportation and storage natural gas operations, and Heritage Operating L.P. (HOLP), a Delaware limited partnership, which is engaged in retail and wholesale propane operations (collectively the Operating Partnerships). The Partnership, the Operating Partnerships, and their other subsidiaries are collectively referred to in this report as Energy Transfer Partners or the Partnership.

**2. DISCONTINUED OPERATIONS:**

In April 2005, the Partnership sold its assets in Oklahoma, referred to as the Elk City System, for \$191,606 in cash and recorded a gain on the sale during fiscal year 2005 of \$142,076, net of income taxes. Accordingly, the Elk City System was accounted for as discontinued operations in accordance with Statement of Financial Accounting Standards, No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, for all periods presented in the condensed consolidated statements of operations, as follows:

	<b>Three Months Ended May 31, 2005</b>	<b>Nine Months Ended May 31, 2005</b>
Revenues	\$ 21,347	\$ 105,542

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Cost and expenses	(20,417)	(100,044)
Income from discontinued operations	\$ 930	\$ 5,498

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 the midstream and transportation and storage segments are estimated using volume estimates and market prices. Any difference between estimated results and actual results are recognized in the following month's financial statements. Management believes that the operating results estimated for the three and nine months ended May 31, 2006 represent the actual results in all material respects.

Some of the other more significant estimates made by management include, but are not limited to, allowances for doubtful accounts, the fair value of derivative instruments, useful lives for depreciation and amortization, purchase accounting allocations and subsequent realizability of intangible assets and deferred taxes. Actual results could differ from those estimates.

**4. ACCOUNTS RECEIVABLE:**

ETC OLP's midstream and transportation and storage operations deal with counterparties that are typically either investment grade or are otherwise secured with a letter of credit or other forms of security (corporate guaranty or prepayment). Management reviews midstream and transportation and storage accounts receivable balances each week. Credit limits are assigned and monitored for all counterparties of the midstream and transportation and storage operations. Management believes that the occurrence of bad debts in the midstream and transportation and storage segments is not significant; therefore, an allowance for doubtful accounts for the midstream and transportation and storage segments was not deemed necessary at May 31, 2006 or August 31, 2005. Bad debt expense related to these receivables is recognized at the time an account is deemed uncollectible. There was no bad debt expense recognized for the three or nine months ended May 31, 2006 and 2005 in the midstream and transportation and storage segments.

ETC OLP enters into netting arrangements with counterparties to mitigate credit risk. Transactions are confirmed with the counterparty, and the net amount is settled when due. Amounts outstanding under these netting arrangements are presented on a net basis in the condensed consolidated balance sheets.

HOLP grants credit to its customers for the purchase of propane and propane-related products. Included in accounts receivable are trade accounts receivable arising from HOLP's retail and wholesale propane operations. Accounts receivable for retail and wholesale propane operations are recorded as amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts for the retail and wholesale propane segments is based on management's assessment of the realizability of customer accounts. Management considers the overall creditworthiness of the Partnership's customers, historical trends in collectability, and any specific disputes in determining the amount of allowance for doubtful accounts. For the three months ended May 31, 2006 and 2005, bad debt expense, net of recoveries, was \$683 and \$564, respectively. Bad debt expense, net of recoveries, of \$1,232 and \$2,466 was recognized for the nine months ended May 31, 2006 and 2005, respectively.

Accounts receivable consisted of the following:

	May 31, 2006	August 31, 2005
Accounts receivable - midstream and transportation and storage	\$ 423,782	\$ 782,090
Accounts receivable - propane	74,594	69,014
Less allowance for doubtful accounts	(3,917)	(4,076)
Total, net	\$ 494,459	\$ 847,028

**Table of Contents****5. INVENTORIES:**

Inventories consist principally of natural gas held in storage which is valued at the lower of cost or market utilizing the weighted average cost method. Propane inventories are also valued at the lower of cost or market. The cost of propane inventories is determined using the weighted-average cost of propane delivered to the customer service locations, and includes storage fees and inbound freight costs, while the cost of appliances, parts, and fittings is determined by the first-in, first-out method. Inventories consisted of the following:

	May 31, 2006	August 31, 2005
Natural gas, propane and other NGLs	\$ 442,573	\$ 288,657
Appliances, parts and fittings and other	13,945	14,236
<b>Total inventories</b>	<b>\$ 456,518</b>	<b>\$ 302,893</b>

**6. CUSTOMER DEPOSITS:**

The August 31, 2005 balance of customer deposits of \$88,038 included \$51,400 related to a prepayment made by a customer for natural gas that was physically delivered during the first quarter of fiscal year 2006. Other customer deposits as of August 31, 2005 have either been returned or applied against amounts owed to the Partnership during the nine months ended May 31, 2006.

**7. INCOME PER LIMITED PARTNER UNIT:**

Basic net income per limited partner unit is computed in accordance with EITF Issue No. 03-6 ( EITF 03-6 ) *Participating Securities and the Two-Class method under FASB Statement No. 128*, by dividing limited partners' interest in net income by the weighted average number of Common and Class F Units outstanding. In periods when the Partnership's aggregate net income exceeds the aggregate distributions, EITF 03-6 requires the Partnership to present earnings per unit as if all of the earnings for the periods were distributed (see table below). Diluted net income per limited partner unit is computed by dividing limited partners' interest in net income, after considering the General Partner's interest, by the weighted average number of Common and Class F Units outstanding and the effect of non-vested restricted units ( Unit Grants ) granted under the 2004 Unit Plan and predecessor plan computed using the treasury stock method. A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2006	2005	2006	2005
Net income	\$ 111,912	\$ 189,510	\$ 482,505	\$ 307,721
Adjustments:				
General Partner's incentive distributions	(28,015)	(11,334)	(68,781)	(25,514)
General Partner's equity ownership	(2,094)	(3,790)	(9,506)	(6,155)
Limited Partners' interest in net income	\$ 81,803	\$ 174,386	\$ 404,218	\$ 276,052
Additional earnings allocation to General Partner (a)	(3,894)	(59,079)	(98,100)	(63,525)
Less earnings allocated to Class C Units as a result of the SCANA settlement (b)	(3,599)		(3,599)	
Net income available to limited partners (a)	\$ 74,310	\$ 115,307	\$ 302,519	\$ 212,527
Weighted average limited partner units - basic	110,658,305	102,244,572	108,466,616	95,251,619
Limited Partners' basic income per unit from continuing operations	\$ 0.67	\$ 0.28	\$ 2.79	\$ 1.16
		0.85		1.07



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Limited Partners basic income per unit from discontinued operations				
Basic net income per limited partner unit (a)	\$ 0.67	\$ 1.13	\$ 2.79	\$ 2.23
Weighted average limited partner units	110,658,305	102,244,572	108,466,616	95,251,619
Dilutive effect of Unit grants	262,922	238,566	251,874	226,944
Weighted average limited partner units, assuming dilutive effect of Unit Grants				
	110,921,227	102,483,138	108,718,490	95,478,563
Limited Partners diluted income per unit from continuing operations				
	\$ 0.67	\$ 0.28	\$ 2.78	\$ 1.16
Limited Partners diluted income per unit from discontinued operations				
		0.85		1.07
Diluted net income per limited partner unit (a)	\$ 0.67	\$ 1.13	\$ 2.78	\$ 2.23

- (a) Basic and diluted net income per limited partner unit for the three and nine months ended May 31, 2005, have been restated to reflect the application of EITF 03-6. The Partnership's net income for partners' capital and income statement presentation purposes is allocated to the General Partner and Limited Partners in accordance with their respective partnership percentages, after giving effect to any priority income allocations for incentive distributions, if any, to the Partnership's General Partner, the holder of the incentive distribution rights pursuant to the Partnership Agreement, which are declared and paid following the close of each quarter. However, for purposes of computing basic and diluted net income per limited partner unit, in periods when the Partnership's aggregate net income exceeds the aggregate distributions for such periods, an increased amount of net income is allocated to the General Partner for the additional pro forma priority income attributable to the application of EITF 03-6. The General Partner is entitled to receive incentive distributions if the amount the Partnership distributes with respect to any quarter exceeds levels specified in the Partnership Agreement.

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- (b) As a result of the SCANA settlement discussed in Notes 12 and 14, the Partnership collected a settlement of \$7,700 which is net of \$3,300 of attorney fees. The Partnership retained \$498 for litigation expenses previously incurred. The remaining \$7,202 was allocated \$3,603 to the Common and Class F Limited Partner Units and \$3,599 as a special one-time distribution to the holder of the Partnership's Class C Units for that amount normally allocated to the Partnership's General Partner. The Limited Partner's share of available net income has been reduced accordingly.

**8. CASH FLOW FROM OPERATING ACTIVITIES:**

Cash flow provided by operating activities in the condensed consolidated statements of cash flows is comprised of the following principal components:

	Nine Months Ended May 31, 2006	Nine Months Ended May 31, 2005
Net income	\$ 482,505	\$ 307,721
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	86,146	70,105
Non-cash compensation on unit grants	5,375	1,206
Minority interests not distributed	1,574	634
Gain on sale of discontinued operations before income tax expense		(143,951)
Other non-cash items	1,428	19,827
Changes in assets and liabilities:		
Accounts receivable	357,146	(112,027)
Deposits paid to vendors	(20,142)	(43,419)
Inventories	(153,172)	(76,089)
Price risk management assets and liabilities, net	147,557	24,766
Accounts payable	(300,369)	217,615
(Utilization) collection of customer deposits	(74,710)	12,782
Accrued interest	17,711	14,312
Income taxes	(842)	(1,177)
Other	(22,412)	3,380
Net cash provided by operating activities	\$ 527,795	\$ 295,685

**Table of Contents****9. UNIT BASED COMPENSATION PLANS:**

On September 1, 2005, the Partnership adopted the modified prospective provisions of Statement of Financial Accounting Standards No. 123 (revised 2004) *Accounting for Stock-based Compensation* ( SFAS 123R ). As provided in SFAS 123R, the Partnership values the unit awards based on the per unit grant-date market value reduced by the present value of the distributions expected to be paid on the units during the requisite service period. The present value is computed based on the risk-free interest rate, the expected life of the unit grants and the expected unit distributions. The Partnership assumed a weighted average risk-free interest rate of 4.32% for the three and nine months ended May 31, 2006, in estimating the present value of the future cash flows of the distributions during the vesting period on the measurement date of each grant. For the awards outstanding during the three and nine months ended May 31, 2006, the weighted average grant-date fair value was \$24.20, and the grant-date average cash distributions were estimated to be \$2.16. The expected life of each grant is assumed to be the minimum vesting period under certain performance criteria of each grant. The Partnership recognized compensation expense of \$5,375 for the nine months ended May 31, 2006 related to unit based compensation plans. Unit based compensation expense for the three months ended May 31, 2006 was not significant. For the three and nine months ended May 31, 2005, the Partnership recognized compensation expense of \$402 and \$1,206, respectively. Adoption of SFAS 123R did not have a material effect on the Partnership's income from continuing operations.

**2004 Unit Plan**

*Employee Grants.* The Compensation Committee, at its discretion, may from time to time grant awards to any employee, upon such terms and conditions as it may determine appropriate and in accordance with specific general guidelines as defined by the 2004 Unit Plan (the Plan ). On December 20, 2005, the Compensation Committee modified the terms of the grants awarded during fiscal year 2005, by issuing 88,183 Common Units on the grants which vested September 1, 2005, forfeiting 800 grants, and granting 168,200 additional awards. Management has determined that the change due to the modification of the grants awarded in fiscal 2005, in accordance with SFAS 123R, was immaterial. As of May 31, 2006, 356,350 awards to employees were outstanding under the 2004 Unit Plan and 2,867 have been forfeited. These awards vest at a rate of one-third per year for three years based upon the achievement of certain performance criteria. The issuance of Common Units pursuant to the 2004 Unit Plan is intended to serve as a means of incentive compensation, therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units.

*Director Grants.* Each director who is not also (i) a shareholder or a direct or indirect employee of any parent, or (ii) a direct or indirect employee of Energy Transfer Partners, L.L.C., the Partnership, or a subsidiary ( Director Participant ), who is elected or appointed to the Board for the first time shall automatically receive, on the date of his or her election or appointment, an award of up to 2,000 Units (the Initial Director's Grant ). Each Director Participant who is in office on September 1st shall automatically receive an award of Units equal to \$15 divided by the fair market value of Common Units on such date ( Annual Director's Grant ). On September 1, 2005, 3,000 Directors Grants vested, and Common Units were issued under the predecessor plan. On December 20, 2005, an additional 3,014 units were vested, and 730 units were forfeited under the 2004 Unit Plan and predecessor plan. As of May 31, 2006, Initial Director's Grants and annual Director's Grants totaling 23,210 units were outstanding under the 2004 Unit Plan and the predecessor plan. Subsequent to May 31, 2006, 1,333 Common Units were issued on Director Grants that had vested.

*Long-Term Incentive Grants.* The Compensation Committee may, from time to time, grant awards under the Plan to any executive officer or any employee it may designate as a participant in accordance with general guidelines under the Plan. As of May 31, 2006, there have been no Long-Term Incentive Grants made under the Plan.

**10. ACQUISITIONS:**

In January 2005, the Partnership acquired the controlling interests in HPL Consolidation LP ( HPL ) from American Electric Power Corporation ( AEP ) for approximately \$825,000 subject to working capital adjustments. In addition, the Partnership acquired working inventory of natural gas stored in the Bammel storage facilities and financed the purchase through a short-term borrowing from an affiliate, which was repaid in full in April 2005. Under the terms of the transaction, the Partnership acquired all but a 2% limited partner interest in HPL. On November 10, 2005, the Partnership acquired the remaining 2% limited partnership interests in HPL for \$16,560 in cash. The purchase price was allocated to property, plant and equipment and the minority interest liability associated with the 2% limited partner interests was eliminated. As a result, HPL became a wholly-owned

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subsidiary of ETC OLP. The Partnership also reached a settlement agreement with AEP in November 2005 related to certain inventory and working capital matters associated with the acquisition. The terms of the agreement were not material in relation to the Partnership's financial position or results of operations.

The Partnership obtained the final independent valuation and made the final allocations of the purchase price to the acquired assets during the second quarter of fiscal year 2006. The final adjustments resulted in a reduction of \$45,820 to the amount allocated to pad gas and an increase of an equal amount to acquired depreciable assets. The final adjustments did not have a material impact on the Partnership's financial position or results of operations.

The unaudited pro forma consolidated results of operations for the nine months ended May 31, 2005 are presented as if the acquisition of HPL had occurred at the beginning of the period presented. The proforma consolidated net income and earnings per unit include the income from discontinued operations as presented on the condensed consolidated income statement for the nine months ended May 31, 2005. The results do not necessarily reflect the results that would have been obtained if the acquisition had actually occurred on the dates indicated or results that may be expected in the future.

	<b>Nine Months Ended May 31, 2005</b>
Revenues	\$ 6,001,908
Net income	\$ 334,147
Basic earnings per Limited Partner Unit	\$ 2.20
Diluted earnings per Limited Partner Unit	\$ 2.20

**11. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:**

On November 23, 2005, the Partnership filed a registered exchange offer to exchange newly issued 5.65% Senior Notes due 2012 (the 2012 Notes) were registered under the Securities Act of 1933 (the New Notes), for a like amount of outstanding 5.65% Senior Notes due 2012, which have not been registered under the Securities Act (the Old Notes). On February 23, 2006 the Partnership commenced the exchange offer which closed on March 31, 2006. All \$400,000 of the unregistered 2012 Notes were tendered pursuant to the exchange offer and were replaced with a like amount of registered notes. The sole purpose of the exchange offer was to fulfill the obligations of the Partnership under the registration rights agreement entered into in connection with the sale by the Partnership of the Old Notes on July 29, 2005. The 2012 Notes issued pursuant to the exchange offer will have substantially identical terms to the Old Notes. The 2012 Notes initially are fully and unconditionally guaranteed by ETC OLP and all of the direct and indirect wholly-owned subsidiaries of ETC OLP.

On December 13, 2005 the Partnership entered into the ETP Revolving Credit Facility, a \$900,000 five-year revolving credit facility available through December 10, 2010 which replaced its previous revolving credit facility. The ETP Revolving Credit Facility includes an accordion feature of \$100,000. On May 16, 2006, ETP exercised the accordion feature which increased the revolver capacity to \$1,000,000. Amounts borrowed under the ETP Revolving Credit Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The ETP Revolving Credit Facility also offers a Swingline loan option with a maximum borrowing of \$50,000 at a daily rate based on LIBOR. The maximum commitment fee payable on the unused portion of the facility is 0.25%. The amount outstanding was \$350,000 as of May 31, 2006. As of May 31, 2006, the Swingline option had \$30,646 outstanding and there were outstanding letters of credit of \$15,355 under the ETP Revolving Credit Facility. The weighted average interest rate on the total amount outstanding at May 31, 2006, was 5.42%. The total amount available under the ETP Revolving Credit Agreement, as of May 31, 2006, which is reduced by any amounts outstanding under the Swingline loan and letters of credit, was \$603,999. The ETP Revolving Credit Facility was amended on June 29, 2006 to increase the facility to \$1,300,000 (the Amended and Restated Revolving Credit Facility), which is expandable to \$1,500,000, and extend the maturity date to June 29, 2011. Under this amendment, the Swingline loan option was increased to a maximum borrowing of \$75,000. The maximum commitment fee payable on the unused portion of the Amended and Restated Credit Facility is 0.175%. The Amended and Restated ETP Revolving Credit Facility is fully and unconditionally guaranteed by ETC OLP and all of the direct and indirect wholly-owned subsidiaries of ETC OLP and Titan Energy Partners, L.P. and its wholly-owned subsidiaries. The

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ETP Revolving Credit Facility is unsecured and has equal rights to holders of the Partnership's other current and future unsecured debt.

On May 31, 2006, ETP entered into a \$250,000 Revolving Credit Facility, which matures on December 1, 2006. Amounts borrowed under this facility will bear interest at a rate based on either a Eurodollar rate or a base rate. There were no amounts outstanding on this facility as of May 31, 2006. The proceeds are intended to be used for working capital purposes. The maximum commitment fee payable on the unused portion of the facility is 0.25%. The \$250,000 Revolving Credit Facility is fully and unconditionally guaranteed by ETC OLP and all of the direct and indirect wholly-owned subsidiaries of ETC OLP. The \$250,000 Revolving Credit Facility is unsecured and has equal rights to holders of the Partnership's other current and future unsecured debt. On July 3, 2006, the Partnership reduced its borrowing capacity on the Revolving Credit Facility to \$200,000. All terms, and maturity date, as mentioned above remain unchanged.

A \$75,000 Senior Revolving Working Capital Facility is available to HOLP through December 31, 2006. Amounts borrowed under this Working Capital Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The maximum commitment fee payable on the unused portion of the facility is 0.50%. HOLP must reduce the principal amount of working capital borrowings to \$10,000 for a period of not less than 30 consecutive days at least one time during each fiscal year, which it complied with during the third quarter ended May 31, 2006. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts of HOLP, and the capital stock of HOLP's subsidiaries secure the Senior Revolving Working Capital Facility. As of May 31, 2006, the Senior Revolving Working Capital Facility did not have a balance outstanding. There were outstanding Letters of Credit for the Senior Revolving Working Capital Facility of \$6,052 at May 31, 2006. Effective September 1, 2005, HOLP entered into the Second Amendment to the Third Amended and Restated Credit Agreement. The amendment states that in no event shall the Letter of Credit Exposure exceed \$15,000 at any time. All of the remaining terms, provisions and conditions of the existing Credit Agreement continue in full force and effect as within the March 31, 2004 Third Amended and Restated Credit Amendment. Letter of Credit exposure plus the Working Capital Loan cannot exceed the \$75,000 maximum Working Capital Facility.

Prior to May 31, 2006, HOLP also maintained a \$75,000 Senior Revolving Acquisition Facility for acquisitions of propane-related businesses. Amounts borrowed under the Acquisition Credit Facility bore interest at a rate based on either a Eurodollar rate or a prime rate. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts of HOLP and the capital stock of HOLP's subsidiaries secured the Senior Revolving Acquisition Facility. During the second quarter of fiscal year 2006, HOLP paid in full the outstanding indebtedness under this facility and cancelled this facility.

**12. COMMITMENTS, CONTINGENCIES, AND ENVIRONMENTAL LIABILITIES:**

**Commitments**

The Partnership has forward commodity contracts which will be settled by physical delivery. Short-term contracts, which expire in less than one year, require delivery of up to 822,337 MMBtu/d. Long-term contracts require delivery of up to 75,430 MMBtu/d and extend through July 2018.

In connection with the Partnership's acquisition of the ET Fuel System in June 2004, it entered into an eight year transportation agreement with TXU Portfolio Management Company, LP (TXU Shipper) to transport a minimum of 115,600 MMBtu per year. As of May 31, 2005 and 2006, respectively, the Partnership was entitled to receive additional fees for the difference between actual volumes transported by TXU Shipper on the ET Fuel System and the minimum amount as stated above during the twelve-month periods ended May 31, 2005 and 2006. As a result, the Partnership recognized an additional \$14,716 and \$13,413 in fees during the three months ended May 31, 2006 and 2005, respectively. TXU Shipper elected to reduce the minimum transport volume to 100,000 MMBtu per year beginning in January 2006. This change will not have a material impact to the Partnership's results of operations.

The Partnership, in the normal course of business, purchases, processes, and sells natural gas pursuant to long-term contracts and enters into long-term transportation and storage agreements. Such contracts contain terms that are customary in the industry. The Partnership believes that such terms are commercially reasonable and will not have a material adverse effect on the Partnership's financial position or results of operations. The Partnership has also entered into several propane purchase and supply commitments which are typically one-year agreements with varying terms as to quantities, prices, and expiration dates. The Partnership also has a long-term purchase contract for 100 million gallons of propane per year that contains a two-year cancellation provision.

**Contingencies**

The Partnership's pipelines are intrastate and not generally subject to federal regulation. However, its subsidiaries make deliveries and sales to points or other parties, including other interstate pipelines, designated for interstate delivery. As part of an inquiry into the natural gas market disruptions during the hurricanes of late 2005, the Partnership provided information to an industry regulator concerning transactions by its

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subsidiaries during the fiscal 2006 first quarter. At this time, the Partnership is unable to predict the outcome of this inquiry, or determine the amount of liability, if any, in connection therewith; however, the Partnership believes, after due inquiry, that its transactions complied in all material respects with applicable rules and regulations.

### **Litigation**

The Operating Partnerships may, from time to time, be involved in litigation and claims arising out of their respective operations in the normal course of business. Propane is a flammable, combustible gas. Serious personal injury and significant property damage can arise in connection with its storage, transportation or use. In the ordinary course of business, HOLP is sometimes threatened with or named as a defendant in various lawsuits seeking actual

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and punitive damages for product liability, personal injury and property damage. The Partnership maintains liability insurance with insurers in amounts and with coverages and deductibles management believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect the Partnership and its Operating Partnerships from material expenses related to product liability, personal injury or property damage in the future. Although any litigation is inherently uncertain, based on past experience, the information currently available and the availability of insurance coverage, the Partnership does not believe that pending or threatened litigation matters will have a material adverse effect on its financial condition or results of operations.

At the time of the HPL acquisition, the HPL Entities, their parent companies and AEP, were engaged in ongoing litigation with Bank of America ( B of A ) that related to AEP's acquisition of HPL in the Enron bankruptcy and B of A's financing of cushion gas stored in the Bammel Storage facility ( Cushion Gas ). This litigation is referred to as the Cushion Gas Litigation . Under the terms of the Purchase and Sale Agreement and the related Cushion Gas Litigation Agreement, AEP and its subsidiaries that were the sellers of the HPL Entities retained control of the Cushion Gas Litigation and have agreed to indemnify ETC OLP and the HPL Entities for any damages arising from the Cushion Gas Litigation and the loss of use of the Cushion Gas, up to a maximum of the amount paid by ETC OLP for the HPL Entities and the working gas inventory. The Cushion Gas Litigation Agreement terminates upon final resolution of the Cushion Gas Litigation. In addition, under the terms of the Purchase and Sale Agreement, AEP retained control of additional matters relating to ongoing litigation and environmental remediation and agreed to bear the costs of or indemnify ETC OLP and the HPL Entities for the costs related to such matters.

Of the pending or threatened matters in which ETP or its subsidiaries are a party, none have arisen outside the ordinary course of business except for an action filed by HOLP on November 30, 1999 against SCANA Corporation, Cornerstone Ventures, L.P. and Suburban Propane, L.P. (the SCANA litigation ). HOLP received favorable final judgment with respect to the SCANA litigation on all four claims on October 21, 2004, and received \$7,700 in net settlement proceeds on June 1, 2006. This amount has been recorded in other current assets and other income in the Partnership's consolidated financial statements. On June 20, 2006, the Partnership declared a special distribution related to the proceeds received in the SCANA litigation of \$0.0325 per Limited Partner Unit payable on July 14, 2006 to holders of record of the Partnership's Common and Class F Units as of the close of business June 30, 2006. The distribution also includes a payment to the holder of the Partnership's Class C Units for that amount normally allocated to the Partnership's General Partner (see Note 14).

The Partnership or its subsidiaries is a party to various legal proceedings and/or regulatory proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Partnership. In the opinion of management, all such matters are either covered by insurance, are without merit or involve amounts which, if resolved unfavorably, may have a significant effect on results of operations for any single period, however, the Partnership believes that such matters will not have a material adverse effect on its financial position. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred, an accrual is established equal to management's estimate of the likely exposure. For matters that are covered by insurance, the Partnership accrues the related deductible. As of May 31, 2006 and August 31, 2005, an accrual of \$2,105 and \$1,120, respectively, was recorded as accrued and other current liabilities on the Partnership's condensed consolidated balance sheet.

**Environmental**

The Partnership's operations are subject to extensive federal, state and local environmental laws and regulations that require expenditures for remediation at operating facilities and waste disposal sites. Although the Partnership believes its operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in the natural gas pipeline and processing business, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations could result in substantial costs and liabilities. Accordingly, the Partnership has adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability, which could result from such events. However, some risk of environmental or other damage is inherent in the natural gas pipeline and processing business, as it is with other entities engaged in similar businesses.

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Environmental exposures and liabilities are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of the Partnership's liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on the results of operations for any single period, the Partnership believes that such costs will not have a material adverse effect on its financial position. As of May 31, 2006 and August 31, 2005, an accrual on an undiscounted basis of \$1,742 and \$2,036, respectively, was recorded as accrued and other current liabilities and other non-current liabilities in the Partnership's condensed consolidated balance sheets to cover environmental liabilities including certain matters assumed in connection with the HPL acquisition. A receivable of \$388 and \$404 was recorded on the Partnership's condensed consolidated balance sheets as of May 31, 2006 and August 31, 2005, respectively, to account for a predecessor's share of certain environmental liabilities.

**13. PRICE RISK MANAGEMENT ASSETS AND LIABILITIES:****Accounting for Derivative Instruments and Hedging Activities**

The Partnership applies Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ) as amended. This statement requires that all derivatives be recognized in the balance sheet as either an asset or liability measured at fair value. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The Partnership has established a formal risk management policy in which derivative financial instruments are employed in connection with an underlying asset, liability or anticipated transaction. At inception of a hedge, the Partnership formally documents the relationship between the hedging instrument and the hedged item, the risk management objectives, the methods used for assessing and testing effectiveness, and how any ineffectiveness will be measured and recorded. The Partnership also assesses, both at the inception of the hedge and on a quarterly basis, whether the derivatives that are used in its hedging transactions are highly effective in offsetting changes in cash flows. Furthermore, management meets on a weekly basis to assess the creditworthiness of the derivative counterparties to manage against the risk of default. If the Partnership determines that a derivative is no longer highly effective as a hedge, it discontinues hedge accounting prospectively by including changes in the fair value of the derivative in current earnings.

The market prices used to value the Partnership's financial derivative transactions have been determined using readily available market information, broker quotes and appropriate valuation techniques.

The Partnership uses independent third party prices to value its financial derivatives. Financial derivatives in liquid markets are valued considering various factors, including broker quotes, similar locations, and estimates.

*Non-trading Activities*

The Partnership utilizes various exchange-traded and over-the-counter commodity financial instrument contracts to limit its exposure to margin fluctuations in natural gas and NGL prices. These contracts consist primarily of futures and swaps and are recorded at fair value on the condensed consolidated balance sheet. If the Partnership designates a financial derivative instrument as a cash flow hedge and it qualifies for hedge accounting, a change in the fair value is deferred in Accumulated Other Comprehensive Income ( OCI ) until the underlying hedged transaction occurs. Any ineffective portion of a cash flow hedge's change in market value is recognized each period in earnings. Realized gains and losses on derivative financial instruments that are designated as cash flow hedges are included in cost of products sold in the period the hedged transactions occurs. Gains and losses deferred in OCI related to cash flow hedges remain in OCI until the underlying physical transaction occurs unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. For those financial derivative instruments that do not qualify for hedge accounting, the change in market value is recorded as cost of products sold in the condensed consolidated statement of operations. The Partnership reclassified into earnings gains of \$2,789 and \$44,463 for the three and nine months ended May 31, 2006, respectively, and gains of \$1,534 and losses of \$9,198 for the three and nine months ended May 31, 2005, respectively, related to commodity financial instruments that were previously reported in OCI.



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In the course of normal operations, the Partnership routinely enters into contracts such as forward physical contracts for the purchase and sale of natural gas, propane, and other NGLs that qualify for and are designated as a normal purchase and sales contracts. Such contracts are exempted from the fair value accounting requirements of SFAS 133 and are accounted for using accrual accounting. In connection with the HPL acquisition, the Partnership acquired certain physical forward contracts that contain embedded options. These contracts have not been designated as normal purchases and sales contracts, and therefore, are marked to market in addition to the financial options that offset them. The Black Scholes valuation model was used to estimate the value of these embedded options.

*Trading Activities*

The Partnership has a risk management policy that governs its marketing and trading operations. These activities are monitored independently by the Partnership's risk management function and must take place within predefined limits and authorizations. Certain strategies are considered trading for accounting purposes and are executed with the use of a combination of financial instruments including, but not limited to, basis contracts and gas daily contracts. The Partnership accounts for its trading activities under the provisions of EITF Issue No. 02-3, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* ( EITF 02-3 ), which requires revenue and costs related to energy trading contracts to be presented on a net basis in the income statement. The derivative contracts that are entered into for trading purposes, subject to limits, are recognized on the condensed consolidated balance sheet at fair value, and changes in the fair value of these derivative instruments are recognized in midstream and transportation and storage revenue in the condensed consolidated statement of operations. Gains associated with trading activities for the three and nine months ended May 31, 2006 were \$6,323 and \$56,160, respectively, including unrealized losses of \$1,064 and \$20,181, respectively. There were no trading activities during the three or nine months ended May 31, 2005.

The following table details the outstanding commodity-related derivatives as of May 31, 2006 and August 31, 2005, respectively:

	Commodity	Notional Volume MMBTU	Maturity	Fair Value
<b>May 31, 2006</b>				
<b>Mark to Market Derivatives</b>				
<i>(Non-Trading)</i>				
Basis Swaps IFERC/NYMEX	Gas	(568,860)	2006-2009	\$ (6,944)
Swing Swaps IFERC	Gas	(60,255,375)	2006-2008	\$ (3,009)
Fixed Swaps/Futures	Gas	(2,200,000)	2006-2007	\$ 8,444
Options	Gas	(1,230,000)	2006-2008	\$ 22,799
Forward Physical Contracts	Gas	(10,010,000)	2006-2008	\$ (22,799)
<i>(Trading)</i>				
Basis Swaps IFERC/NYMEX	Gas	6,715,000	2006-2008	\$ 26,154
Fixed Swaps/Futures	Gas	(7,500,000)	2006	\$ 1,068
Forward Physical Contracts	Gas	(770,000)	2006	\$ (252)
<b>Cash Flow Hedging Derivatives</b>				
<i>(Non-Trading)</i>				
Fixed Price Swap	Gas	(48,940,000)	2006-2007	\$ 57,139
Basis Swaps IFERC/NYMEX	Gas	(44,922,500)	2006-2007	\$ (12,771)
<b>August 31, 2005:</b>				
<b>Mark to Market Derivatives</b>				
<i>(Non-Trading)</i>				
Basis Swaps IFERC/NYMEX	Gas	(34,196,114)	2005-2007	\$ 646
Swing Swaps IFERC	Gas	(25,636,504)	2005-2006	\$ (6,400)
Fixed Swaps/Futures	Gas	(1,960,000)	2005-2006	\$ (7,423)
Options	Gas	(1,776,000)	2005-2008	\$ 78,941
Forward Physical Contracts	Gas	(21,340,000)	2005-2008	\$ (78,941)
<i>(Trading)</i>				
Basis Swaps IFERC/NYMEX	Gas	(55,772,500)	2005-2007	\$ 49,833
Swing Swaps IFERC	Gas	(42,204,999)	2005-2008	\$ (3,686)
Fixed Swaps/Futures	Gas	(150,000)	2005	\$ 559
Forward Physical Contracts	Gas		2005	\$ 441

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**Cash Flow Hedging Derivatives**

Fixed Swaps/Futures	Gas	(41,827,500)	2005-2007	\$ (141,142)
Fixed Index Swaps	Gas	5,910,000	2005-2006	\$ 36,455
Basis Swaps IFERC/NYMEX	Gas	(6,877,500)	2005-2006	\$ 3,361

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The Partnership expects gains of \$46,306 to be reclassified into earnings over the next twelve months related to income currently reported in OCI. The amount ultimately realized, however, will differ as commodity prices change. The majority of the Partnership's commodity-related derivatives are expected to settle within the next two years.

Estimates related to the Partnership's gas marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. The Partnership also attempts to maintain balanced positions in its non-trading activities to protect itself from the volatility in the energy commodities markets; however, net unbalanced positions can exist. Long-term physical contracts are tied to index prices. System gas, which is also tied to index prices, will provide the gas required by our long-term physical contracts. When third-party gas is required to supply long-term contracts, a hedge is put in place to protect the margin on the contract. Financial contracts, which are not tied to physical delivery, will be offset with financial contracts to balance the Partnership's positions. To the extent open commodity positions exist in the Partnership's trading and non-trading activities, fluctuating commodity prices can impact the Partnership's financial results and financial position, either favorably or unfavorably.

During the second quarter of fiscal year 2006, the Partnership discontinued application of hedge accounting in connection with certain derivative financial instruments that were qualified for and designated as cash flow hedges related to forecasted sales of natural gas stored in the Partnership's Bammel storage facilities. The discontinuation resulted from management's determination that the originally forecasted sales of natural gas from the storage facilities were no longer probable of occurring by the end of the originally specified time period, or within an additional two-month period of time thereafter. The determination was made principally due to the unseasonably warm weather that occurred during February 2006 through March 2006. One of the key criteria to achieve hedge accounting under SFAS 133 is that the forecasted transaction be probable of occurring as originally set forth in the hedge documentation. As a result, during the nine months ended May 31, 2006, the Partnership recognized previously deferred unrealized gains related to February 2006 and March 2006 of \$84,680 from the discontinued application of hedge accounting. The Partnership classified the \$84,680 as a reduction to costs of products sold in its condensed consolidated statements of operations.

**Table of Contents****Interest Rate Risk**

The Partnership is exposed to market risk for changes in interest rates related to its bank credit facilities. The Partnership manages a portion of its interest rate exposures by utilizing interest rate swaps and similar arrangements which allow the Partnership to effectively convert a portion of variable rate debt into fixed rate debt.

Treasury locks with a notional amount of \$200,000, on which the Partnership applies hedge accounting under SFAS 133, were outstanding as of May 31, 2006 and had a fair value of \$13,034 which was recorded as unrealized gains in OCI and a component of price risk management assets in the condensed consolidated balance sheet. The outstanding treasury locks expire in June 2006 and were entered into in anticipation of a bond offering to occur by the end of the originally specified time period or within an additional two-month period of time thereafter. Nominal gains and losses were reclassified into earnings previously reported in OCI during the nine months ended May 31, 2006 and the three and nine months ended May 31, 2005 related to treasury locks. Gains of \$823 were reclassified into earnings previously reported in OCI during the nine months ended May 31, 2006. Subsequent to May 31, 2006, the treasury locks settled for a gain of \$14,237.

The Partnership entered into treasury locks and interest rate swaps with a notional amount of \$300,000 during the three months ended May 31, 2006. The Partnership elected not to apply hedge accounting to these financial instruments. Accordingly, changes in the fair value are accounted for in interest expense on the consolidated statements of operations. The fair value of \$9,379 as of May 31, 2006 related to these treasury locks was recorded as a component of price risk management assets in the consolidated balance sheet and expire in September 2006.

The following represents gains (losses) on derivative activity for the periods presented:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Commodity-related</b>				
Unrealized gains (losses) recognized in revenues and cost of products sold related to commodity-related derivative activity, excluding ineffectiveness	\$ (46,317)	\$ (5,832)	\$ (8,508)	\$ 5,815
Ineffective portion of derivatives qualifying for hedge accounting	\$ 1,430	\$ (645)	\$ 18,753	\$ (15,547)
Realized gains included in revenues and cost of products sold	\$ 57,600	\$ 5,194	\$ 158,055	\$ 36,854
<b>Interest rate swaps</b>				
Unrealized gains (losses) on interest rate swap included in interest expense, excluding ineffectiveness	\$ 9,304	\$ (3,870)	\$ 9,153	\$ (3,009)
Ineffective portion of derivatives qualifying for hedge accounting	\$ 75	\$	\$ 846	\$
Realized gains (losses) on interest rate swap included in interest expense	\$ (8)	\$ 4,189	\$ 127	\$ (3,825)

**14. QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH:**

On October 14, 2005, the Partnership paid a quarterly distribution of \$0.50 per unit, or \$2.00 per unit annually, to the Unitholders of record at the close of business on September 30, 2005. On January 13, 2006, the Partnership paid a quarterly distribution of \$0.55 per unit, or \$2.20 per unit annually to Unitholders of record at the close of business on January 4, 2006. On April 14, 2006, the Partnership paid a quarterly distribution of \$0.5875 per Limited Partner Unit, or \$2.35 per unit annually, an increase of \$0.15 per Limited Partner Unit on an annualized basis, to Unitholders of record at the close of business on March 24, 2006. On May 1, 2006, pursuant to its general partner authority, the Partnership Agreement was amended to permit the General Partner to declare the next quarterly distribution prior to the close of such quarter. On May 8, 2006, the Partnership declared a cash distribution of \$0.6375, or \$2.55 per Limited Partner Unit annually, a \$0.20 increase per Limited Partner Unit, for the third quarter ended May 31, 2006 that will be paid on July 14, 2006 to Unitholders of record at the close of business on June 30, 2006, (under generally accepted accounting principles, the Partnership records the amount of the quarterly distribution at the time it is declared, which may occur prior to the time the quarterly distribution is actually paid). As of May 31, 2006, a

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liability of \$100,678 for the July distribution payment was recorded as an accrued liability in the Partnership's consolidated balance sheet.

In addition to these quarterly distributions, the General Partner, Energy Transfer Partners, GP, L.P. ( "ETP GP" ), received quarterly distributions for its general partner interest in the Partnership and incentive distributions to the extent the quarterly distribution exceeded \$0.275 per unit. The total amount of distributions declared relating to the nine months ended May 31, 2006 on Common Units, the Class F Units, the Class E Units, the General Partner interests and the Incentive Distribution Rights totaled \$191,274, \$3,148, \$9,363, \$5,562, and \$68,781, respectively. All such distributions were made from Available Cash from Operating Surplus.

On June 20, 2006, the Partnership announced that the Board of Directors of the Partnership's General Partner declared a special distribution of \$0.0325 per Limited Partner Unit related to the proceeds received by the Partnership in connection with the SCANA litigation settlement (see Notes 7 and 12). This distribution will be paid on July 14, 2006 to the holders of record of the Partnership's Common and Class F Units as of the close of business on June 30, 2006 for the third quarter ended May 31, 2006. This special one-time payment was approved following a determination of the Litigation Committee of the General Partner to distribute all the net distributable litigation proceeds received by the Partnership in accordance with the Partnership Agreement. The special distribution also includes a payment to the holder of the Partnership's Class C Units for that amount normally allocated to the General Partner, which will be \$3,599.

**15. PARTNERS' CAPITAL:**

Pursuant to its general partner authority, the Partnership's General Partner amended the Amended and Restated Agreement of Limited Partnership of ETP on February 6, 2006, to create a new class of limited partner interests titled Class F Units. The terms and provisions of the Class F Units provide that they may be converted to Common Units upon the approval of a majority of the votes cast by the holders of the Partnership's Common Units provided that the total votes cast by such holders represent a majority of the Common Units entitled to vote. Prior to conversion of the Class F Units, the Class F Units will share in Partnership distributions and will be entitled to all items of Partnership income, gain, loss, deduction and credit as if the Class F Units were Subordinated Units. Upon receiving the requisite approval by the Partnership's common unitholders under a proposal to convert the Class F Units to Common Units, all Class F Units shall convert to Common Units on a one-for-one basis. In the event the Class F Units are not converted to Common Units within six months of their issuance, the Class F Units will be entitled to share in Partnership distributions based on 115% of the amount of any Partnership distribution to each Common Unit, and the right to receive distributions shall have the same order of priority relative to distributions on the Common Units.

On February 8, 2006, the Partnership sold and issued 1,069,850 Common Units and 2,570,150 Class F Units representing limited partnership interests in the Partnership, to Energy Transfer Equity, L.P., ( "ETE" ). ETE owns 100% of the 2% general partner interests in ETP GP and 50% of the incentive distribution rights in the Partnership (which it holds through its ownership interests in ETP GP). The price paid for each of the Common Units and Class F Units was equal to \$36.37 per unit, the New York Stock Exchange closing price of the Partnership's Common Units on February 8, 2006. The Common Units and Class F Units were issued to ETE in a private placement that is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Of the aggregate proceeds of \$132,387 from the sale, \$75,000 was used to extinguish the HOLP Senior Revolving Acquisition Facility, to pay down the HOLP Senior Revolving Working Capital Facility, and for HOLP general operating purposes. The remaining balance of \$57,387 from the proceeds was used to pay down existing debt on the ETP Revolving Credit Facility and for general Partnership operating purposes.

On May 2, 2006, the Partnership issued 99,955 Common Units in connection with a propane acquisition to the former owners of such operations.

As of May 31, 2006, the Partnership had 1,000,000 Class C Units that were issued to the former owners of the Partnership's general partner in conjunction with the August 2000 U.S. Propane transaction, and represent that portion the Partnership's general partner would have been entitled to receive from any distributions attributable to the SCANA litigation (see Note 12). Upon making the payment to the holder of the Class C Units (see Note 14), all 1,000,000 outstanding Class C Units will be retired and canceled.

**Table of Contents****16. INCOME TAXES:**

Energy Transfer Partners, L.P. is a limited partnership. As a result, the Partnership's earnings or losses, to the extent not included in a taxable subsidiary, for federal and state income tax purposes are included in the tax returns of the individual partners. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities, in addition to the allocation requirements related to taxable income under the Partnership Agreement.

The Partnership is generally not subject to income tax. It is, however, subject to a statutory requirement that its non-qualifying income (including income such as derivative gains from trading activities, service income, tank rentals and others) cannot exceed 10% of its total gross income, determined on a calendar year basis under the applicable income tax provisions. If the amount of the Partnership's non-qualifying income exceeds this statutory limit, the Partnership would be taxed as a corporation. Accordingly, certain activities that generate non-qualified income are conducted through taxable corporate subsidiaries (C corporations). These C corporations are subject to federal and state income tax and pay the income taxes related to the results of their operations. For the periods ended May 31, 2006 and 2005, the Partnership's non-qualifying income was not expected to exceed the statutory limit.

Those subsidiaries which are taxable corporations follow the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities settled.

The difference between the statutory rate and the effective rate is summarized as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
Federal statutory tax rate	35.0%	35.0%	35.0%	35.0%
State income tax rate net of federal benefit	2.9%	3.5%	3.1%	3.5%
Earnings not subject to tax at the Partnership level	(36.2%)	(36.9%)	(32.6%)	(36.2%)
Effective tax rate	1.7%	1.6%	5.5%	2.3%

Income tax expense consists of the following current and deferred amounts:

	Three Months Ended		Nine Months Ended	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
Current income tax expense (benefit):				
Federal	\$ 1,616	\$ (454)	\$ 26,006	\$ 1,680
State	(1,091)	268	1,767	610
Deferred income tax expense (benefit):				
Federal	1,588	2,917	978	4,296
State	(132)	451	(345)	755
Total	\$ 1,981	\$ 3,182	\$ 28,406	\$ 7,341

On May 18, 2006, the Governor of Texas signed into law House Bill 3 (HB-3) which modifies the existing franchise tax law. The modified franchise tax will be computed by subtracting either costs of goods sold or compensation expense, as defined in HB-3, from gross revenue to arrive at a gross margin. The resulting gross margin will be taxed at a one percent tax rate. HB-3 has also expanded the definition of tax paying entities to include limited partnerships such as ours. HB-3 becomes effective for activities occurring on or after January 1, 2007. Based on our initial analysis, the Partnership does not believe HB-3 will have a significant adverse impact on its financial position or operating cash flows.



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**17. RELATED PARTY TRANSACTIONS:**

On February 2, 2006 the Partnership entered into a shared services agreement effective upon the initial public offering of ETE. Under the terms of the shared services agreement, ETE will pay the Partnership an annual administrative fee of \$500 for the provision of various general and administrative services. The administrative fee may increase in the second and third years by the greater of 5% or the percentage increase in the consumer price index and may also increase if ETE later requires an increase in the level of general and administrative services. Fees recognized since this agreement started were nominal.

The Partnership's natural gas midstream and transportation and storage operations secure compression services from various third parties including Energy Transfer Technologies, Ltd. Energy Transfer Group, LLC is the general partner of Energy Transfer Technologies, Ltd. These entities are collectively referred to as the ETG Entities. The Partnership's Co-Chief Executive Officers have an indirect ownership in the ETG Entities. In addition, two of the General Partner's directors serve on the Board of Directors of the ETG Entities. The terms of each arrangement to provide compression services are, in the opinion of independent directors of the General Partner, no less favorable than those available from other providers of compression services. For the nine months ended May 31, 2006 and 2005, payments totaling \$5,901 and \$898, respectively, were made to the ETG Entities for compression services provided to and utilized in the Partnership's natural gas midstream and transportation and storage operations.

**18. SUMMARIZED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS:**

The Partnership's ETP Revolving Credit Facility and Senior Notes are fully and unconditionally guaranteed by ETC OLP and all of the direct and indirect wholly-owned subsidiaries of ETC OLP (the Subsidiary Guarantors). HOLP and its direct and indirect subsidiaries and Heritage Holdings, Inc. do not guarantee the Partnership's Revolving Credit Facility and Senior Notes. The Subsidiary Guarantors jointly and severally guarantee, on an unsecured senior basis, the Partnership's obligations under the Partnership's Revolving Credit Facility and Senior Notes. Following are unaudited condensed consolidating financial information of the Partnership, the Subsidiary Guarantors, the Non-Guarantor Subsidiaries and the Partnership on a consolidated basis. The condensed consolidating financial information presented herein complies with Rule 3-10 of Regulation S-X, is prepared on the equity method, and does not contain related financial statement disclosures that would be required with a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America.



**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET**

As of May 31, 2006

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 560	\$	\$ 26,085	\$	\$ 26,645
Marketable securities			4,510		4,510
Accounts receivable, net of allowance for doubtful accounts		423,782	70,677		494,459
Accounts receivable from related parties	223,336	13,743	2,808	(237,526)	2,361
Deposits paid to vendors		85,177			85,177
Inventories		406,845	49,673		456,518
Price risk management assets	22,413	49,788			72,201
Prepaid expenses and other assets	534	50,876	4,678		56,088
Total current assets	246,843	1,030,211	158,431	(237,526)	1,197,959
PROPERTY, PLANT AND EQUIPMENT, net		2,385,838	517,997		2,903,835
LONG-TERM PRICE RISK MANAGEMENT ASSETS		5,143			5,143
INVESTMENT IN AFFILIATES	3,298,143	32,261	134,892	(3,428,311)	36,985
GOODWILL		23,736	301,678		325,414
INTANGIBLES AND OTHER ASSETS, net	13,173	5,660	103,331		122,164
Total assets	\$ 3,558,159	\$ 3,482,849	\$ 1,216,329	\$ (3,665,837)	\$ 4,591,500
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$	\$ 466,837	\$ 46,369	\$	\$ 513,206
Accounts payable to related parties	8,740	226,406	2,385	(237,526)	5
Customer deposits		10,841	2,533		13,374
Price risk management liabilities		33,388			33,388
Accrued and other current liabilities	4,556	121,815	55,460		181,831
Accrued distribution payable	100,678				100,678
Accrued interest	23,255		4,103		27,358
Income taxes payable			1,221		1,221
Deferred income taxes		4,061			4,061
Current maturities of long-term debt			39,710		39,710
Total current liabilities	137,229	863,348	151,781	(237,526)	914,832
LONG-TERM DEBT, less current maturities	1,528,246		265,010		1,793,256
LONG-TERM PRICE RISK MANAGEMENT LIABILITIES		363			363
NON-CURRENT DEFERRED INCOME TAXES		52,038	56,703		108,741
OTHER NONCURRENT LIABILITIES		9,740			9,740
MINORITY INTERESTS			2,051		2,051
COMMITMENTS AND CONTINGENCIES					
	1,665,475	925,489	475,545	(237,526)	2,828,983

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PARTNERS CAPITAL	1,892,684	2,557,360	740,784	(3,428,311)	1,762,517
Total liabilities and partners capital	\$ 3,558,159	\$ 3,482,849	\$ 1,216,329	\$ (3,665,837)	\$ 4,591,500

**Table of Contents****ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET**

As of August 31, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 3,810	\$ 38	\$ 21,066	\$	\$ 24,914
Marketable securities			3,452		3,452
Accounts receivable, net of allowance for doubtful accounts		782,090	64,938		847,028
Accounts receivable from related parties	99,833	12,515	1,858	(109,727)	4,479
Deposits paid to vendors		65,034			65,034
Inventories		225,325	77,568		302,893
Price risk management assets		138,961			138,961
Prepaid expenses and other assets	917	62,514	7,828		71,259
<b>Total current assets</b>	<b>104,560</b>	<b>1,286,477</b>	<b>176,710</b>	<b>(109,727)</b>	<b>1,458,020</b>
PROPERTY, PLANT AND EQUIPMENT, net	9	1,938,160	502,396		2,440,565
LONG-TERM PRICE RISK MANAGEMENT ASSETS		41,687			41,687
INVESTMENT IN AFFILIATES	2,718,945	32,601	144,283	(2,858,476)	37,353
GOODWILL		23,736	300,283		324,019
INTANGIBLES AND OTHER ASSETS, net	13,057	14,412	97,793		125,262
<b>Total assets</b>	<b>\$ 2,836,571</b>	<b>\$ 3,337,073</b>	<b>\$ 1,221,465</b>	<b>\$ (2,968,203)</b>	<b>\$ 4,426,906</b>
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>					
<b>CURRENT LIABILITIES:</b>					
Working capital facility	\$	\$	\$ 17,026	\$	\$ 17,026
Accounts payable	2,181	764,590	52,004		818,775
Accounts payable to related parties	9,461	100,865	474	(109,727)	1,073
Customer deposits		85,527	2,511		88,038
Price risk management liabilities	2,156	102,616			104,772
Accrued and other current liabilities	2,318	80,174	87,639		170,131