ENTERPRISE PRODUCTS PARTNERS L P
Form 10-Q
May 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF** THE SECURITIES **EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006
OR

o **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: 1-14323
ENTERPRISE PRODUCTS PARTNERS L.P.
(Exact name of Registrant as Specified in Its Charter)

Delaware	**76-0568219**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2727 North Loop West, Houston, Texas	**77008**
(Address of Principal Executive Offices)	(Zip Code)

(713) 880-6500
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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 and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

There were 408,699,837 common units of *Enterprise Products Partners L.P.* outstanding at May 1, 2006. These common units trade on the New York Stock Exchange under the ticker symbol EPD.

ENTERPRISE PRODUCTS PARTNERS L.P.
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION.

Item 1. ***Financial Statements*****.**

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 34,991	$ 42,098
Restricted cash	5,907	14,952
Accounts and notes receivable trade, net of allowance for doubtful accounts of $20,585 at March 31, 2006 and $25,849 at December 31, 2005	1,088,121	1,448,026
Accounts receivable related parties	11,696	6,557
Inventories	255,415	339,606
Prepaid and other current assets	107,774	120,208
Total current assets	1,503,904	1,971,447
Property, plant and equipment, net	8,825,047	8,689,024
Investments in and advances to unconsolidated affiliates	463,532	471,921
Intangible assets, net of accumulated amortization of $184,309 at March 31, 2006 and $163,121 at December 31, 2005	930,069	913,626
Goodwill	494,033	494,033
Deferred tax asset	4,821	3,606
Other assets	97,099	47,359
Total assets	$12,318,505	$12,591,016
LIABILITIES AND PARTNERS EQUITY		
Current liabilities		
Accounts payable trade	$ 199,245	$ 265,699
Accounts payable related parties	4,507	23,367
Accrued gas payables	1,197,878	1,372,837
Accrued expenses	27,727	30,294
Accrued interest	71,233	71,193
Other current liabilities	132,962	126,881
Total current liabilities	1,633,552	1,890,271
Long-term debt	4,396,315	4,833,781
Other long-term liabilities	113,093	84,486
Minority interest	115,196	103,169
Commitments and contingencies		
Partners equity		

Limited partners		
Common units (407,959,188 units outstanding at March 31, 2006 and 389,109,564 units outstanding at December 31, 2005)	5,916,557	5,542,700
Restricted common units (740,649 units outstanding at March 31, 2006 and 751,604 units outstanding at December 31, 2005)	4,671	18,638
General partner	120,839	113,496
Accumulated other comprehensive income	18,282	19,072
Deferred compensation		(14,597)
Total partners equity	6,060,349	5,679,309
Total liabilities and partners equity	$12,318,505	$12,591,016

See Notes to Unaudited Condensed Consolidated Financial Statements

2

Table of Contents

**ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
AND COMPREHENSIVE INCOME
(Dollars in thousands, except per unit amounts)**

	For the Three Months Ended March 31,	
	2006	2005
REVENUES		
Third parties	$3,159,999	$2,497,329
Related parties	90,075	58,193
Total	3,250,074	2,555,522
COST AND EXPENSES		
Operating costs and expenses		
Third parties	2,945,220	2,318,073
Related parties	101,643	65,571
Total operating costs and expenses	3,046,863	2,383,644
General and administrative costs		
Third parties	2,732	5,018
Related parties	11,008	9,675
Total general and administrative costs	13,740	14,693
Total costs and expenses	3,060,603	2,398,337
EQUITY IN INCOME OF UNCONSOLIDATED AFFILIATES	4,029	8,279
OPERATING INCOME	193,500	165,464
OTHER INCOME (EXPENSE)		
Interest expense	(58,077)	(53,413)
Other, net	1,969	919
Other expense	(56,108)	(52,494)
INCOME BEFORE PROVISION FOR INCOME TAXES, MINORITY INTEREST AND CHANGE IN ACCOUNTING PRINCIPLE	137,392	112,970
Provision for income taxes	(2,892)	(1,769)
INCOME BEFORE MINORITY INTEREST AND CHANGE IN ACCOUNTING PRINCIPLE	134,500	111,201
Minority interest	(2,198)	(1,945)
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	132,302	109,256

Cumulative effect of change in accounting principle (see Note 3)	1,475	
NET INCOME	133,777	109,256
Amortization of cash flow financing hedges	(1,041)	(995)
Change in fair value of commodity hedges	251	(1,434)
COMPREHENSIVE INCOME	$ 132,987	$ 106,827
ALLOCATION OF NET INCOME:		
Limited partners interest in net income	$ 112,369	$ 93,723
General partner interest in net income	$ 21,408	$ 15,533
EARNINGS PER UNIT: (see Note 14)		
Basic income per unit before change in accounting principle	$ 0.28	$ 0.25
Basic income per unit	$ 0.28	$ 0.25
Diluted income per unit before change in accounting principle	$ 0.28	$ 0.25
Diluted income per unit	$ 0.28	$ 0.25

See Notes to Unaudited Condensed Consolidated Financial Statements

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in thousands)

	For the Three Months Ended March 31, 2006	2005
OPERATING ACTIVITIES		
Net income	$ 133,777	$ 109,256
Adjustments to reconcile net income to cash flows provided from operating activities:		
Depreciation, amortization and accretion in operating costs and expenses	104,816	99,965
Depreciation and amortization in general and administrative costs	1,501	1,922
Amortization in interest expense	250	(477)
Equity in income of unconsolidated affiliates	(4,029)	(8,279)
Distributions received from unconsolidated affiliates	8,253	21,838
Cumulative effect of change in accounting principle	(1,475)	
Operating lease expense paid by EPCO, Inc.	528	528
Minority interest	2,198	1,945
Gain on sale of assets	(61)	(5,436)
Deferred income tax expense	1,487	1,802
Changes in fair market value of financial instruments	(53)	102
Net effect of changes in operating accounts (see Note 17)	247,084	(58,920)
Net cash provided from operating activities	494,276	164,246
INVESTING ACTIVITIES		
Capital expenditures	(278,698)	(175,230)
Contributions in aid of construction costs	12,180	8,942
Proceeds from sale of assets	75	42,158
Decrease in restricted cash	9,045	15,799
Cash used for business combinations and asset purchases	(38,100)	(150,478)
Acquisition of intangible asset		(1,750)
Advances to Jonah affiliate (see Note 13)	(53,549)	
Investments in unconsolidated affiliates	(7,979)	(80,569)
Advances (to) from unconsolidated affiliates	8,381	(8,065)
Cash used in investing activities	(348,645)	(349,193)
FINANCING ACTIVITIES		
Borrowings under debt agreements	510,000	1,382,175
Repayments of debt	(920,000)	(1,500,979)
Debt issuance costs		(4,425)
Distributions paid to partners	(193,543)	(164,692)
Distributions paid to minority interests	(1,495)	(1,330)
Contributions from minority interests	11,372	6,327
Net proceeds from issuance of common units	440,928	501,045

Cash provided by (used in) financing activities	(152,738)	218,121
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,107)	33,174
CASH AND CASH EQUIVALENTS, JANUARY 1	42,098	24,556
CASH AND CASH EQUIVALENTS, MARCH 31	$ 34,991	$ 57,730

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED PARTNERS EQUITY
(See Note 11 for Unit History and Detail of Changes in Limited Partners Equity)
(Dollars in thousands)

	Limited Partners	General Partner	Deferred Compensation	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2005	$5,561,338	$113,496	$(14,597)	$ 19,072	$5,679,309
Net income	112,369	21,408			133,777
Operating leases paid by EPCO, Inc.	517	11			528
Cash distributions to partners	(170,564)	(22,595)			(193,159)
Unit option reimbursements to EPCO, Inc.	(376)	(8)			(384)
Net proceeds from sales of common units	431,391	8,804			440,195
Proceeds from exercise of unit options	718	15			733
Change in accounting method for equity awards (see Note 3)	(15,814)	(322)	14,597		(1,539)
Amortization of equity awards	1,649	30			1,679
Change in fair value of commodity hedges				251	251
Interest rate hedging financial instruments recorded as cash flow hedges:					
Amortization of gain as component of interest expense				(1,041)	(1,041)
Balance, March 31, 2006	$5,921,228	$120,839	$	$ 18,282	$6,060,349

See Notes to Unaudited Condensed Consolidated Financial Statements

5

ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Partnership Organization and Basis of Financial Statement Presentation

Partnership Organization and Formation

Enterprise Products Partners L.P. is a publicly traded Delaware limited partnership, the common units of which are listed on the New York Stock Exchange (NYSE) under the ticker symbol EPD. Unless the context requires otherwise, references to we, us, our, or Enterprise Products Partners are intended to mean the consolidated business and operations of Enterprise Products Partners L.P. and its subsidiaries.

We were formed in April 1998 to own and operate certain natural gas liquids (NGLs) related businesses of EPCO, Inc. (EPCO). We conduct substantially all of our business through our wholly owned subsidiary, Enterprise Products Operating L.P. (our Operating Partnership). We are owned 98% by our limited partners and 2% by Enterprise Products GP, LLC (our general partner, referred to as Enterprise Products GP). Enterprise Products GP is owned 100% by Enterprise GP Holdings L.P. (Enterprise GP Holdings), a publicly traded affiliate, the common units of which are listed on the NYSE under the ticker symbol EPE. The general partner of Enterprise GP Holdings is EPE Holdings, LLC (EPE Holdings), a wholly owned subsidiary of Dan Duncan LLC, the membership interests of which is owned by Dan L. Duncan. We, Enterprise Products GP, Enterprise GP Holdings, EPE Holdings and Dan Duncan LLC are affiliates and under common control of Dan L. Duncan, the Chairman and controlling shareholder of EPCO.

References to TEPPCO mean TEPPCO Partners, L.P., which is a related party affiliate to us. References to TEPPCO GP refer to the general partner of TEPPCO, which is wholly owned by a private company subsidiary of EPCO.

Basis of Presentation of Consolidated Financial Statements

Our results of operations for the three months ended March 31, 2006 are not necessarily indicative of results expected for the full year.

Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

Essentially all of our assets, liabilities, revenues and expenses are recorded at the Operating Partnership level in our consolidated financial statements. We act as guarantor of certain of our Operating Partnership s debt obligations. See Note 18 for condensed consolidated financial information of our Operating Partnership.

In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments consisting of normal recurring accruals necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). These unaudited financial statements should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2005 (Commission File No. 1-14323).

2. General Accounting Policies and Related Matters

Use of estimates

In accordance with GAAP, we use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each reporting period. Our actual results could differ from these estimates.

New accounting pronouncements

Emerging Issues Task Force (EITF) 04-13, Accounting for Purchases and Sale of Inventory With the Same Counterparty. This accounting guidance requires that two or more inventory transactions with the same counterparty should be viewed as a single nonmonetary transaction, if the transactions were entered into in contemplation of one another. Exchanges of inventory between entities in the same line of business should be accounted for at fair value or recorded at carrying amounts, depending on the classification of such inventory. This guidance was effective during the first quarter of 2006, and our adoption of this guidance had no impact on our financial position, results of operations or cash flows.

Financial statements change in accounting principle and reclassifications

In January 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) 123(R), *Share-Based Payment,* which resulted in us recording a cumulative effect of accounting change of $1.5 million. For additional information regarding our adoption of SFAS 123(R), see Note 3.

Certain reclassifications have been made to the prior year s financial statements to conform to the current year presentation. During the second quarter of 2005, we changed the classification of changes in restricted cash in our Unaudited Condensed Statements of Consolidated Cash Flows to present such changes as an investing activity. We previously presented such changes as an operating activity. In the accompanying Unaudited Condensed Statements of Consolidated Cash Flows for the three months ended March 31, 2005, we reclassified the change in restricted cash to be consistent with our current presentation. This reclassification resulted in a $15.8 million decrease to cash flows used in investing activities and a corresponding decrease to cash provided from operating activities from the amounts previously presented for the three months ended March 31, 2005.

Accounting for employee benefit plans

Dixie Pipeline Company (Dixie), a consolidated subsidiary, directly employs the personnel that operate its pipeline system and certain of these employees are eligible to participate in Dixie s defined contribution plan and pension and postretirement benefit plans. Due to the immaterial nature of Dixie s employee benefit plans to our consolidated financial position, results of operations and cash flows, our discussion is limited to the following:

Defined contribution plan. Dixie contributed nominal amounts to its company-sponsored defined contribution plan during the three months ended March 31, 2006 and 2005.

Pension and postretirement benefit plans. Dixie s net pension benefit costs were $0.2 million and $0.1 million for the three months ended March 31, 2006 and 2005, respectively. Dixie s net postretirement benefit costs were nominal for the three months ended March 31, 2006 and 2005. During the remainder of 2006, Dixie expects to contribute approximately $0.3 million to its postretirement benefit plan and between $2 million and $4.4 million to its pension plan.

3. Accounting for Equity Awards

Effective January 1, 2006, we began to account for our equity awards using the provisions of SFAS 123(R). Historically, our equity awards were accounted for using the intrinsic value method described in Accounting Principles Board Opinion (APB) 25, *Accounting for Stock Issued to Employees.* SFAS 123(R) requires us to recognize compensation expense related to our equity awards based on the fair value of the award at the grant date. The fair value of an equity award is estimated using the Black-Scholes option pricing model. Under SFAS 123(R), the fair value of an award is amortized to earnings on a straight-line basis over the requisite service or vesting period.

Upon our adoption of SFAS 123(R), we recognized a cumulative effect of change in accounting principle of $1.5 million (a benefit) based on SFAS 123(R) s requirement to recognize compensation expense based upon the grant date fair value of an equity award and the application of an estimated forfeiture rate to unvested awards. In addition, previously recognized deferred compensation of $14.6 million related to nonvested (or restricted) common units was reversed on January 1, 2006.

Prior to our adoption of SFAS 123(R), we did not recognize any compensation expense related to unit options; however, compensation expense was recognized in connection with awards granted by EPE Unit L.P. (the Employee Partnership) and the issuance of nonvested units. The effects of applying SFAS 123(R) during the first quarter of 2006 did not have a material effect on net income or basic and diluted earnings per unit.

Since we adopted SFAS 123(R) using the modified prospective method, we have not restated the financial statements of prior periods. The following table shows the pro forma effects on our earnings for the three months ended March 31, 2005 as if the fair value method of SFAS 123, *Accounting for Stock-Based Compensation* had been used instead of the intrinsic-value method of APB 25. The only equity awards outstanding during the three months ended March 31, 2005 were unit options and nonvested units.

Reported net income	$ 109,256
Additional unit option-based compensation expense estimated using fair value-based method	(177)
Pro forma net income	$ 109,079
Basic and diluted earnings per unit:	
As reported and pro forma	$ 0.25

Unit options

Under EPCO s 1998 Long-Term Incentive Plan (the 1998 Plan), non-qualified incentive options to purchase a fixed number of our common units may be granted to EPCO s key employees who perform management, administrative or operational functions for us. Generally, the exercise price of each option granted is equivalent to the market price of the underlying equity at the date of grant. In addition, options granted under the 1998 Plan have a weighted-average vesting period of four years and remain exercisable for ten years from the date of grant.

EPCO purchases common units to fund its obligations under the 1998 Plan at fair value either in the open market or from us. When employees exercise unit options, we reimburse EPCO for the cash difference between the strike price paid by the employee and the actual purchase price paid by EPCO for the units issued to the employee.

The fair value of each unit option is estimated on the date of grant using the Black-Scholes option pricing model, which incorporates various assumptions including (i) expected life of the options of seven years, (ii) risk-free interest rates ranging from 3.8% to 4.2%, (iii) expected distribution yield on our common units ranging from 8.8% to 9.2%, and (iv) expected unit price volatility on our common units ranging from 20% to 29%. In general, our assumption of expected life represents the period of time that options granted are expected to be outstanding based on an analysis of historical activity. Our selection of the risk-free interest rate is based on published yields for U.S. government securities with comparable terms. The expected distribution yield and unit price volatility on our units is estimated based upon several factors, which include an analysis of our historical unit price volatility and distribution yield over a period equal to the expected life of the option granted.

The information in the following table shows unit option activity under the 1998 Plan.

	Number of Units		Weighted-average strike price	Weighted-average remaining contractual term (in years)		Aggregate Intrinsic Value (1)
Outstanding at December 31, 2005	2,082,000	$	22.16			
Exercised	(29,000)	$	12.88			
Outstanding at March 31, 2006	2,053,000	$	22.29	7.56	$	3,655
Exercisable at March 31, 2006	698,000	$	19.45	5.34	$	3,655

(1) Aggregate intrinsic value reflects fully vested unit options at March 31, 2006.

The total intrinsic value of unit options exercised during the first quarter of 2006 was $0.3 million. We recognized $0.1 million of compensation expense associated with unit options during the first quarter of 2006. As of March 31, 2006, we expect to incur $1.1 million of unrecognized compensation cost related to nonvested unit options over a weighted-average period of approximately three years. During the first quarter of 2006, we received cash of $0.7 million from unit option exercises, and our option-related reimbursements to EPCO were $0.4 million.

Nonvested units

Under the 1998 Plan, we can issue nonvested (i.e., restricted) common units to key employees of EPCO and directors of our general partner. The 1998 Plan provides for the issuance of 3,000,000 restricted common units, of which 2,186,264 remain authorized for issuance at March 31, 2006.

In general, our restricted unit awards entitle recipients to acquire the underlying common units (at no cost to them) once the defined vesting period expires, subject to certain forfeiture provisions. The restrictions on the nonvested units generally lapse four years from the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period. The grant date fair value of nonvested units is estimated on the date of grant based on the market price of our common units.

The following table provides a summary of our nonvested units in total at December 31, 2005 and changes during the first quarter of 2006.

	Number of Units	Weighted-average grant

			date fair value
Nonvested at December 31, 2005	751,604	$	24.49
Granted	17,500	$	24.95
Vested	(2,434)	$	25.90
Forfeited	(26,021)	$	23.90
Nonvested at March 31, 2006	740,649	$	24.52

The total fair value of restricted units that vested during the first quarter of 2006 was $0.1 million. During the first quarter of 2006, we recognized $0.7 million of compensation expense associated with nonvested units. As of March 31, 2006, we expect to incur $9.3 million of unrecognized compensation cost, related to nonvested units issued to EPCO employees that work on our behalf, over a weighted-average period of approximately 2 years.

Employee Partnership

In connection with the initial public offering of Enterprise GP Holdings in August 2005, the Employee Partnership was formed to serve as an incentive arrangement for certain employees of EPCO through a profits interest in the Employee Partnership. At inception, the Employee Partnership used $51 million in contributions it received from an affiliate of EPCO (which was admitted as the Class A limited partner of the Employee Partnership) to purchase 1,821,428 units of Enterprise GP Holdings in August 2005. Certain EPCO employees, including all of EPE Holdings and Enterprise Products GP s executive officers other than Dan L. Duncan, have been issued Class B limited partner interests without any capital contribution and admitted as Class B limited partners of the Employee Partnership.

As described in its partnership agreement, the Employee Partnership will be liquidated the earlier of (i) August 2010 or (ii) a change in control of Enterprise GP Holdings or its general partner. Upon liquidation of the Employee Partnership, units having a fair market value equal to the Class A limited partner s capital base will be distributed to the Class A limited partner, plus any Class A preferred return for the quarter in which liquidation occurs. Any remaining units will be distributed to the Class B limited partners as a residual profits interest in the Employee Partnership as an award.

Prior to our adoption of SFAS 123(R), the estimated value of the profits interest was accounted for similar to a stock appreciation right. Upon our adoption of SFAS 123(R), we began recognizing compensation expense based upon the estimated grant date fair value of the Class B partnership equity awards.

The fair value of the Class B partnership equity awards was estimated on the date of grant using the Black-Scholes option pricing model, which incorporates various assumptions. We used the following assumptions to estimate the fair value of these equity awards: (i) expected life of award of five years; (ii) risk-free interest rate of 4.1%; (iii) expected dividend yield on units of Enterprise GP Holdings of 3% and (iv) expected Enterprise GP Holdings unit price volatility of 30%. In general, the assumptions used in the Black-Scholes option pricing model to estimate the fair value of the Class B partnership equity awards are similar to those used to estimate the fair value of Enterprise Products Partners unit options.

During the first quarter of 2006, we recognized $0.6 of compensation expense associated with profits interests. At March 31, 2006, there was $10.7 million of total unrecognized compensation cost related to profits interests, which is expected to be recognized on a straight-line basis through the third quarter of 2010.

4. Financial Instruments

We are exposed to financial market risks, including changes in commodity prices and interest rates. We may use financial instruments (i.e., futures, forwards, swaps, options and other financial instruments with similar characteristics) to mitigate the risks of certain identifiable and anticipated transactions. In general, the type of risks we attempt to hedge are those related to the variability of future earnings, fair values of certain debt instruments and cash flows resulting from changes in applicable interest rates or commodity prices. As a matter of policy, we do not use financial instruments for speculative (or trading) purposes.

Interest Rate Risk Hedging Program

Our interest rate exposure results from variable and fixed rate borrowings under debt agreements. We manage a portion of our interest rate exposures by utilizing interest rate swaps and similar arrangements, which allow us to convert a portion of fixed rate debt into variable rate debt or a portion of variable rate debt into fixed rate debt.

Table of Contents

As summarized in the following table, we had eleven interest rate swap agreements outstanding at March 31, 2006 that were accounted for as fair value hedges.

Hedged Fixed Rate Debt	Number Of Swaps	Period Covered by Swap	Termination Date of Swap	Fixed to Variable Rate (1)	Notional Amount
Senior Notes B, 7.50% fixed rate, due Feb. 2011	1	Jan. 2004 to Feb. 2011	Feb. 2011	7.50% to 8.15%	$ 50 million
Senior Notes C, 6.375% fixed rate, due Feb. 2013	2	Jan. 2004 to Feb. 2013	Feb. 2013	6.375% to 6.69%	$200 million
Senior Notes G, 5.6% fixed rate, due Oct. 2014	6	4th Qtr. 2004 to Oct. 2014	Oct. 2014	5.6% to 5.27%	$600 million
Senior Notes K, 4.95% fixed rate, due June 2010	2	Aug. 2005 to June 2010	June 2010	4.95% to 4.99%	$200 million

(1) The variable rate indicated is the all-in variable rate for the current settlement period.

The total fair value of these eleven interest rate swaps at March 31, 2006 and December 31, 2005, was a liability of $46.8 million and $19.2 million, respectively, with an offsetting decrease in the fair value of the underlying debt. Interest expense for the three months ended March 31, 2006 and 2005 reflects a $0.2 million and $4.6 million benefit from these swap agreements, respectively.

Commodity Risk Hedging Program

The prices of natural gas, NGLs and petrochemical products are subject to fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are beyond our control. In order to manage the risks associated with natural gas and NGLs, we may enter into commodity financial instruments. The primary purpose of our commodity risk management activities is to hedge our exposure to price risks associated with (i) natural gas purchases, (ii) NGL production and inventories, (iii) related firm commitments, (iv) fluctuations in transportation revenues where the underlying fees are based on natural gas index prices and (v) certain anticipated transactions involving either natural gas or NGLs.

At March 31, 2006 and December 31, 2005, we had a limited number of commodity financial instruments in our portfolio, which primarily consisted of economic hedges. The fair value of our commodity financial instrument portfolio at March 31, 2006 and December 31, 2005 was an asset of $1.1 million and a liability of $0.1 million, respectively. We recorded nominal amounts of earnings from our commodity financial instruments during the three months ended March 31, 2006 and 2005.

5. Inventories

Our inventory amounts were as follows at the dates indicated:

	March 31, 2006	December 31, 2005
Working inventory	$237,783	$279,237
Forward-sales inventory	17,632	60,369

Inventory	$255,415	$339,606

Our regular trade (or working) inventory is compr