Energy Transfer Partners, L.P.
Form 10-Q
May 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from ______ to ______

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

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

3738 Oak Lawn Avenue

Dallas, Texas 75219

(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. Yes x No ¨

Indicate by check mark whether the Registrant is large accelerated filer, accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

At May 9, 2008, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 142,819,957 Common Units

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Energy Transfer Partners, L.P. and Subsidiaries

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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 Part II Other Information Item 1A, Risk Factors in this Quarterly Report on Form 10-Q as well as the Partnership s Report on Form 10-K as of August 31, 2007 filed with the Securities and Exchange Commission on October 30, 2007.

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
Capacity	Capacity of a pipeline, processing plant or storage facility refers to the maximum capacity under normal operating conditions and, with respect to pipeline transportation capacity, is subject to multiple factors (including natural gas injections and withdrawals at various delivery points along the pipeline and the utilization of compression) which may reduce the throughput capacity from specified capacity levels.
Dekatherm	Million British thermal units. A therm factor is used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used.
Mcf	thousand cubic feet
MMBtu	million British thermal unit
MMcf	million cubic feet
Bcf	billion cubic feet
NGL	natural gas liquid, such as propane, butane and natural gasoline
Tcf	trillion cubic feet
LIBOR	London Interbank Offered Rate
NYMEX	New York Mercantile Exchange
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 122,260	$ 56,467
Marketable securities	13,651	3,002
Accounts receivable, net of allowance for doubtful accounts	1,062,620	822,027
Accounts receivable from related companies	32,491	24,438
Inventories	116,160	361,954
Deposits paid to vendors	60,475	42,273
Prepaid expenses and other current assets	107,555	99,798
Total current assets	1,515,212	1,409,959
PROPERTY, PLANT AND EQUIPMENT, net	6,897,297	6,433,788
ADVANCES TO AND INVESTMENT IN AFFILIATES	1,253	86,167
GOODWILL	743,383	728,109
INTANGIBLES AND OTHER LONG-TERM ASSETS, net	365,939	350,138
Total assets	$ 9,523,084	$ 9,008,161

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	March 31, 2008	December 31, 2007
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	$ 785,244	$ 672,388
Accounts payable to related companies	26,197	48,483
Exchanges payable	43,533	40,382
Customer advances and deposits	41,056	75,831
Accrued and other current liabilities	155,658	180,465
Accrued capital expenditures	152,954	87,622
Interest payable	45,220	63,254
Current maturities of long-term debt	47,213	47,036
Total current liabilities	1,297,075	1,215,461
LONG-TERM DEBT, less current maturities	4,640,280	4,297,264
DEFERRED INCOME TAXES	106,837	102,762
OTHER NON-CURRENT LIABILITIES	14,654	13,483
COMMITMENTS AND CONTINGENCIES (Note 12)		
Total liabilities	6,058,846	5,628,970
PARTNERS CAPITAL:		
General Partner	138,619	160,193
Limited Partners:		
Common Unitholders (142,819,957 and 142,069,957 units authorized, issued and outstanding at March 31, 2008 and December 31, 2007, respectively)	3,327,792	3,192,092
Class E Unitholders (8,853,832 units authorized, issued and outstanding held by subsidiary and reported as treasury units)		
	3,466,411	3,352,285
Accumulated other comprehensive income (loss), per accompanying statements	(2,173)	26,906
Total partners capital	3,464,238	3,379,191
Total liabilities and partners capital	$ 9,523,084	$ 9,008,161

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per unit data)

(unaudited)

	Three Months Ended	
	March 31, 2008	**February 28, 2007**
REVENUES:		
Natural gas operations	$ 2,007,847	$ 1,492,838
Retail propane	598,138	499,252
Other	33,386	70,390
Total revenues	2,639,371	2,062,480
COSTS AND EXPENSES:		
Cost of products sold natural gas operations	1,577,268	1,138,709
Cost of products sold retail propane	392,555	304,634
Cost of products sold other	9,895	42,473
Operating expenses	178,970	133,809
Depreciation and amortization	58,828	45,360
Selling, general and administrative	48,369	39,133
Total costs and expenses	2,265,885	1,704,118
OPERATING INCOME	373,486	358,362
OTHER INCOME (EXPENSE):		
Interest expense, net of interest capitalized	(55,549)	(40,772)
Equity in earnings (losses) of affiliates	74	(514)
Loss on disposal of assets	(1,451)	(3,229)
Other income, net	17,637	1,423
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS	334,197	315,270
Income tax expense	5,862	3,300
INCOME BEFORE MINORITY INTERESTS	328,335	311,970
Minority interests		(856)
NET INCOME	328,335	311,114
GENERAL PARTNER S INTEREST IN NET INCOME	74,364	60,567
LIMITED PARTNERS INTEREST IN NET INCOME	$ 253,971	$ 250,547
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 1.34	$ 1.33
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	142,762,265	136,977,139
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 1.34	$ 1.33

DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	143,197,800	137,297,706

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

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31, 2008	**February 28, 2007**
Net income	$ 328,335	$ 311,114
Other comprehensive income (loss), net of tax:		
Reclassification adjustment for gains and losses on derivative instruments accounted for as cash flow hedges included in net income	(22,691)	(121,511)
Change in value of derivative instruments accounted for as cash flow hedges	(6,221)	75,953
Change in value of available-for-sale securities	(167)	1,421
Comprehensive income	$ 299,256	$ 266,977
Reconciliation of Accumulated Other Comprehensive Income (Loss), net of tax		
Balance, beginning of period	$ 26,906	$ 59,603
Current period reclassification to earnings	(22,691)	(121,511)
Current period change in value	(6,388)	77,374
Balance, end of period	$ (2,173)	$ 15,466
Components of Accumulated Other Comprehensive Income (Loss), net of tax		
Commodity related hedges	$ (3,012)	$ 15,460
Interest rate hedges	521	(1,497)
Available-for-sale securities	318	1,503
Balance, end of period	$ (2,173)	$ 15,466

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

FOR THE THREE MONTHS ENDED MARCH 31, 2008

(Dollars in thousands)

(unaudited)

	General Partner	Limited Partner Common Unitholders
Balance, December 31, 2007	$ 160,193	$ 3,192,092
Distributions to partners	(90,885)	(160,672)
Issuance of units in public offering		34,984
General Partner capital contribution	747	
Contribution receivable from General Partner	(5,806)	
Tax effect of remedial income allocation from tax amortization of goodwill		(975)
Non-cash executive compensation	6	306
Unit-based compensation expense		8,086
Net income	74,364	253,971
Balance, March 31, 2008	$ 138,619	$ 3,327,792

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended March 31, 2008	Three Months Ended February 28, 2007
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 383,944	$ 443,443
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisitions, net of cash acquired	(40,753)	(50,246)
Capital expenditures, net of contributions in aid of construction costs	(452,660)	(305,817)
(Advances to) repayments from affiliates, net	63,534	(1,572)
Proceeds from the sale of assets	10,433	11,681
Net cash used in investing activities	(419,446)	(345,954)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	2,995,405	901,715
Principal payments on debt	(2,658,498)	(797,109)
Net proceeds from issuance of Limited Partner Units	34,984	
Distributions to partners	(251,557)	(160,452)
Debt issuance costs	(19,039)	(315)
Net cash provided by (used in) financing activities	101,295	(56,161)
INCREASE IN CASH AND CASH EQUIVALENTS	65,793	41,328
CASH AND CASH EQUIVALENTS, beginning of period	56,467	34,746
CASH AND CASH EQUIVALENTS, end of period	$ 122,260	$ 76,074

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

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

(unaudited)

1. OPERATIONS AND ORGANIZATION:

The accompanying condensed consolidated balance sheet as of December 31, 2007, 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 (collectively, we or the Partnership) as of March 31, 2008 and for the three-month periods ended March 31, 2008 and February 28, 2007, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim consolidated financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Partnership s operations, maintenance activities and the impact of forward natural gas prices and differentials on certain derivative financial instruments that are accounted for using mark-to-market accounting.

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, L.P. and subsidiaries as of March 31, 2008, and the Partnership s results of operations and cash flows for the three-month periods ended March 31, 2008 and February 28, 2007, respectively. 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, 2007, as filed with the SEC on October 30, 2007, and the Partnership s Report on Form 8-K as of December 31, 2007 and for the four-month transition period then ended, filed with the SEC on March 19, 2008.

In November 2007, we filed a Form 8-K indicating that our Limited Partnership Agreement had been amended to change our fiscal year end to the calendar year. Thus, our new year began on January 1, 2008. The Partnership completed a four-month transition period that began September 1, 2007 and ended December 31, 2007 and filed a transition report on Form 10-Q for that period in February 2008. The financial statements contained herein cover the three-month period ended March 31, 2008 and the three-month period ended February 28, 2007 (the three-month period of the previous fiscal year most nearly comparable to the three-month period ended March 31, 2008).

We did not recast the financial data for the prior fiscal period because the financial reporting processes in place at that time included certain procedures that were completed only on a fiscal quarterly basis. Consequently, to recast those periods would have been impractical and would not have been cost-justified. Furthermore, we believe the information and data of the three-month period ended February 28, 2007 is comparable to what would have been reported for the three-month period ended March 31, 2007 if we had recast the prior period information. Such comparability is impacted primarily by weather, fluctuations in commodity prices, volumes of natural gas sold and transported, our hedging strategies and the use of financial instruments, trading activities, basis differences between market hubs and interest rates. We believe that the trends indicated by comparison of the results for the three-month period ended February 28, 2007 to the period ended March 31, 2008 are substantially similar to what would have been reflected had we recast the information for the period ended March 31, 2007.

Business Operations

In order to simplify the obligations of Energy Transfer Partners, L.P. under the laws of several jurisdictions in which we conduct business, our activities consist of four reportable segments, which are conducted through four subsidiary operating partnerships (collectively the Operating Partnerships).

La Grange Acquisition, L.P., dba Energy Transfer Company (ETC OLP), a Texas limited partnership engaged in midstream and intrastate transportation and storage natural gas operations;

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Energy Transfer Interstate Holdings, LLC (ET Interstate), the parent company of Transwestern Pipeline Company, LLC (Transwestern) and ETC Midcontinent Express Pipeline, LLC (ETC MEP), both Delaware limited liability companies engaged in interstate transportation of natural gas;

Heritage Operating L.P. (HOLP), a Delaware limited partnership primarily engaged in retail propane operations; and

Titan Energy Partners, LP (Titan), a Delaware limited partnership engaged in retail propane operations.

The Partnership, the Operating Partnerships, and their subsidiaries are collectively referred to in this report as we , us , ETP , Energy Transfer or the Partnership.

ETC OLP owns and operates, through its wholly and majority-owned subsidiaries, natural gas gathering systems, intrastate natural gas pipeline systems and gas processing plants and is engaged in the business of purchasing, gathering, transporting, processing, and marketing natural gas and natural gas liquids (NGLs) in the states of Texas, Louisiana, New Mexico, Utah and Colorado.

Our interstate transportation operations principally focus on natural gas transportation of Transwestern.

Our retail propane segment sells propane and propane-related products and services to residential, commercial, industrial and agricultural customers.

2. SIGNIFICANT ACQUISITIONS:

Four-Month Transition Period Ended December 31, 2007

In October 2007, we acquired the Canyon Gathering System midstream business of Canyon Gas Resources, LLC from Cantera Resources Holdings, LLC (the Canyon acquisition) for $305.2 million in cash, subject to working capital adjustments as defined in the purchase and sale agreement. The Canyon Gathering System has over 400,000 dedicated acres under long-term contracts. The Canyon assets include a gathering system in the Piceance-Uinta Basin which consists of over 1,300 miles of 2-inch to 16-inch pipe with a projected capacity of over 300 MMcf/d, as well as six conditioning plants for NGL extraction and gas treatment with a processing capacity of 90 MMcf/d. Some of the largest U.S. producers are active in the area and are major customers of the system. The results of the Canyon Gathering System are included in our midstream segment since the acquisition date.

The Canyon acquisition was accounted for under the purchase method of accounting in accordance with FASB Statement No. 141, *Business Combinations*, (SFAS 141), and the purchase price was preliminarily allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, as follows:

Accounts receivable	$ 4,303
Inventory	183
Prepaid and other current assets	1,612
Property, plant, and equipment	284,910
Contract rights and customer lists (6 to 15 year life)	6,351
Goodwill	10,959
Total assets acquired	308,318
Accounts payable	(2,299)
Customer advances and deposits	(867)
Total liabilities assumed	(3,166)

Net assets acquired	$ 305,152

The Canyon acquisition was not material for pro forma disclosure purposes.

We expect to finalize the purchase price allocation for the Canyon acquisition in the third quarter of 2008.

During the three months ended March 31, 2008 we made a purchase price adjustment for a contingent payment associated with a natural gas gathering system in north Texas purchased in September 2006. The purchase and sale agreement had a contingent payment not to exceed $25.0 million which was to be determined eighteen months after the closing date. The contingent payment of $8.7 million was recorded as an adjustment to goodwill in the midstream segment.

3. ESTIMATES, SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS:

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

The natural gas industry conducts its business by processing actual transactions at the end of the month following the month of delivery. Consequently, the most current month s financial results for the midstream and transportation and storage segments are estimated using volume estimates and market prices. Any differences between estimated results and actual results are recognized in the following month s financial statements. Management believes that the operating results estimated for the three months ended March 31, 2008 and February 28, 2007 represent the actual results in all material respects.

Some of the other more significant estimates made by management include, but are not limited to, the timing of certain forecasted transactions that are hedged, 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, estimates related to our unit-based compensation plans, deferred taxes, assets and liabilities resulting from the regulated ratemaking process, contingency reserves and environmental reserves. Actual results could differ from those estimates.

Significant Accounting Policies

Financial Assets and Liabilities at Fair Value

We adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, (SFAS 157) effective January 1, 2008. SFAS 157 provides a definition of fair value, establishes a fair value framework and hierarchy under GAAP and provides for expanded disclosures of fair value measurements. SFAS 157 does not require any new fair value measurements other than those established by other GAAP requirements.

We have marketable securities, commodity derivatives and interest rate derivatives that are accounted for as assets and liabilities at fair value in our condensed consolidated balance sheets. In accordance with SFAS 157, we determine the fair value of our assets and liabilities subject to fair value measurement by using the highest possible Level as defined in SFAS 157. Level 1 inputs are observable quotes in an active market for identical assets and liabilities. We consider the valuation of marketable securities and commodity derivatives transacted through a clearing broker with a published price from the appropriate exchange as a Level 1 valuation. Level 2 inputs are inputs observable for similar assets and liabilities. We consider over-the-counter commodity derivatives entered into directly with third parties Level 2 valuation since the values of these derivatives are quoted on an exchange for similar transactions. We consider the valuation of our interest rate derivatives as Level 2 since we use a LIBOR curve based on quotes from an active exchange of Eurodollar futures for the same period as the future interest swap settlements and discount the future cash flows accordingly, including the effects of our credit risk. Level 3 utilizes significant unobservable inputs. We currently do not have any fair value measurements that require the use of unobservable inputs in our fair value measurements and therefore do not have any assets or liabilities considered as Level 3 valuations as defined by SFAS 157. See Note 13 for additional information and detail of our commodity and interest rate derivative fair value assets and liabilities.

Contributions in Aid of Construction Costs

On certain of our capital projects, third parties are obligated to reimburse us for all or a portion of project expenditures. The majority of such arrangements are associated pipeline construction and production well tie-ins. Contributions in aid of construction costs (CIAC) are netted against our project costs as they are received, and the excess of any CIAC which exceeds our projects costs is recognized as other income in the period in which it was realized. During the three months ended March 31, 2008 and February 28, 2007, $33.1 million and $4.0 million of CIAC was received and netted against our project costs, respectively. During the three months ended March 31, 2008, we received a reimbursement of $40.0 million from Trunkline Gas Company, LLC related to an

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extension on our Southeast Bossier pipeline resulting in an excess over total project costs of $7.1 million which is recorded in other income. The total CIAC recorded to other income was $7.7 million and $0.1 million for the three months ended March 31, 2008 and February 28, 2007, respectively.

New Accounting Standards

FASB Staff Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157 (FSP 157-2)*. FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). An entity that has issued interim or annual financial statements reflecting the application of the measurement and disclosure provisions of SFAS 157 prior to February 12, 2008, must continue to apply all provisions of SFAS 157. We are currently evaluating the impact of our adoption of FSP 157-2 effective January 1, 2009 on our consolidated financial statements.

FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of SFAS Statements No. 87, 88, 106 and 132(R)*, (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. We adopted the recognition and disclosure provisions of SFAS 158 on December 1, 2006 in connection with our acquisition of Transwestern, the effect of which was not material. The measurement provisions of the statement are effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of this statement on January 1, 2008 did not have a material impact on our consolidated financial statements.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment applies to all entities with available-for-sale and trading securities. We did not elect the fair value option provisions upon adoption of SFAS 159 on January 1, 2008.

FASB Statement No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). On December 4, 2007, the FASB issued SFAS 141R. SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (currently referred to as minority interests) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, we are required to record and disclose business combinations following existing GAAP until January 1, 2009.

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). On December 4, 2007, the FASB issued SFAS 160. SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAS 160 requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact of SFAS 160 on our consolidated financial statements. We do not anticipate a significant impact from a financial perspective, however, the impact on the presentation of our financial information could be significant.

EITF Issue No. 07-4, *Application of the Two Class Method Under FASB Statement No. 128, Earnings Per Share, to Master Limited Partnerships (MLP)* (EITF 07-4). The FASB ratified the final consensus on EITF 07-4 on March 26, 2008. The key elements of the EITF 07-4 final consensus relate to: (a) the scope of the issue; (b) when Incentive Distribution Rights (IDRs) are considered participating securities under the two-class method for Earnings Per Share (EPS); (c) the calculation provisions; and (d) the transition and effective date. EITF 07-4 addresses how current period earnings of an MLP should be allocated to the general partner, limited partners, and, when applicable, the holder of IDRs when applying the two-class method under Statement 128. EITF 07-4 applies to MLPs that are required to make incentive distributions when certain thresholds have been met regardless of whether the IDR is a separate limited partner interest or embedded in the general partner interest. EITF 07-4 only addresses incentive distributions that are treated as equity distributions and does not address whether the incentive distributions are compensation or equity distributions. Specifically, if IDRs are separate from the general partner interest, then they are considered separate participating securities for purposes of applying the two-class method of determining EPS. Under this situation, the two-class method is used to determine EPS for the general partner interest, limited partner interest and the IDR holders interest. EITF 07-4 provides that when earnings for the period exceed distributions, the excess undistributed earnings are to be allocated to the general partner, limited partners and holders of the IDRs based on the terms of the partnership agreement related to the allocation of income. When distributions for the period exceed earnings, the income is first allocated equal to the actual distributions. The resulting deficit is allocated to the general partner, limited partners and holders of the IDRs based on the terms of the partnership agreement related to the allocation of losses. EITF 07-4 is effective with the first fiscal year beginning after December 15, 2008, including interim periods within those fiscal years, and requires retrospective application of the guidance to all periods presented. Early application is prohibited. Accordingly, we are required to record and disclose EPS information following existing GAAP until January 1, 2009. We are currently evaluating the impact of the adopting of EITF 07-4. While the actual impact of EITF 07-4 will depend on each specific period s earnings and distributions, the principles established in such EITF differ significantly from the present method used to compute earnings per unit when earnings exceed distributions. Depending on the actual earnings achieved, the impact of EITF 07-4 on the computation of our earnings per limited partner unit may be significant.

FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133* (SFAS 161). Issued in March, 2008, SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. Thus, SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement has the same scope as SFAS 133, and accordingly applies to all entities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the impact of our adoption of this statement effective January 1, 2009 on our consolidated financial statements.

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4. CASH, CASH EQUIVALENTS AND SUPPLEMENTAL CASH FLOW INFORMATION:

Cash and cash equivalents include all cash on hand, demand deposits, and investments with original maturities of three months or less. We consider cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

We place our cash deposits and temporary cash investments with high credit quality financial institutions. At times, such balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Net cash flows provided by operating activities is comprised as follows:

	Three Months Ended March 31, 2008	Three Months Ended February 28, 2007
Net income	$ 328,335	$ 311,114
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	58,828	45,360
Amortization of finance costs charged to interest	1,074	1,317
Provision for loss on accounts receivable	1,204	461
Non-cash compensation on unit grants	8,086	2,907
Non-cash executive compensation	312	
Deferred income taxes	2,857	(2,523)
Loss on disposal of assets	1,451	3,229
Distributed earnings of affiliates, net	1,651	514
Minority interests and other		966
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(248,114)	(99,091)
Accounts receivable from related companies	(12,805)	(29)
Inventories	248,217	305,853
Deposits paid to vendors	(18,202)	46,258
Exchanges receivable	(6,885)	(3,876)
Prepaid expenses and other	(2,824)	14,603
Intangibles and other long-term assets	2	(1,684)
Regulatory assets	(3,188)	(5,055)
Accounts payable	114,815	(31,112)
Accounts payable to related companies	(22,308)	405
Customer advances and deposits	(34,803)	(55,370)
Exchanges payable	3,150	(584)
Accrued and other current liabilities	(18,869)	(41,543)
Other long-term liabilities	1,667	5,680
Income taxes payable	4,125	(1,278)
Price risk management liabilities, net	(23,832)	(53,079)
Net cash provided by operating activities	$ 383,944	$ 443,443

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Non-cash financing activities and supplemental cash flow information are as follows:

	Three Months Ended March 31, 2008	Three Months Ended February 28, 2007
NON-CASH FINANCING ACTIVITIES:		
Long-term debt assumed and non-compete agreement notes payable issued in acquisitions	$ 2,693	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest, net of $10,471 and $5,741 capitalized for March 31, 2008 and February 28, 2007, respectively	$ 83,438	$ 61,216
Cash paid during the period for income taxes	$ (353)	$ 2,908
Transfer of investment in affiliate in purchase of Transwestern	$	$ 956,348

5. ACCOUNTS RECEIVABLE:

During the three months ended March 31, 2008, we exchanged a portion of our outstanding accounts receivable for Calpine Corporation (Calpine) common stock pursuant to a settlement reached with Calpine related to their bankruptcy reorganization. The stock was included as marketable securities which are classified as available-for-sale securities and are reflected as a current asset on the condensed consolidated balance sheet at March 31, 2008 at a fair value of $12.1 million.

Accounts receivable consisted of the following:

	March 31, 2008	December 31, 2007
Midstream and intrastate transportation and storage	$ 869,779	$ 612,533
Interstate transportation	23,064	31,676
Propane	175,920	183,516
Less allowance for doubtful accounts	(6,143)	(5,698)
Total, net	$ 1,062,620	$ 822,027

The activity in the allowance for doubtful accounts for the propane operations for the three months ended March 31, 2008 consisted of the following:

Balance, December 31, 2007	$ 5,698
Accounts receivable written off, net of recoveries	(759)
Provision for loss on accounts receivable	1,204
Balance, March 31, 2008	$ 6,143

6. INVENTORIES:

Inventories consist principally of natural gas held in storage 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 utilizing the weighted-average cost of propane delivered to the customer service locations, including storage fees and inbound freight costs. The cost of appliances, parts and fittings is determined by the first-in, first-out method.

Inventories consisted of the following:

	March 31, 2008	December 31, 2007
Natural gas, propane and other NGLs	$ 96,657	$ 342,457
Appliances, parts and fittings and other	19,503	19,497
Total inventories	$ 116,160	$ 361,954

7. INTANGIBLES AND OTHER LONG-TERM ASSETS:

Intangibles and other long-term assets are stated at cost net of amortization computed on the straight-line method. We eliminate from our balance sheet the gross carrying amount and the related accumulated amortization for any fully amortized intangibles in the year they are fully amortized. Components and useful lives of intangibles and other long-term assets were as follows:

	March 31, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Noncompete agreements (5 to 15 years)	$ 37,807	$ (20,673)	$ 34,855	$ (19,438)
Customer lists (3 to 15 years)	143,255	(30,032)	139,097	(26,821)
Contract rights (6 to 15 years)	23,015	(2,323)	23,015	(1,849)
Other (10 years)	2,677	(1,658)	2,677	(1,463)
Total amortizable intangible assets	206,754	(54,686)	199,644	(49,571)
Non-amortizable assets -Trademarks	72,148		70,339	
Total intangible assets	278,902	(54,686)	269,983	(49,571)
Other long-term assets:				
Financing costs (3 to 15 years)	53,304	(11,860)	42,432	(10,578)
Regulatory assets	77,533	(3,427)	73,687	(2,623)
Other	26,173		26,808	
Total intangibles and other long-term assets	$ 435,912	$ (69,973)	$ 412,910	$ (62,772)

Aggregate amortization expense of intangible assets is as follows:

	Three Months Ended	
	March 31, 2008	February 28, 2007
Reported in depreciation and amortization	$ 4,299	$ 4,082
Reported in interest expense	$ 1,282	$ 1,317

Estimated aggregate amortization expense for the next five years is as follows:

Years Ending December 31:	
2008 (remainder)	$ 19,130
2009	24,914
2010	2