

ENTERPRISE PRODUCTS PARTNERS L P
Form 10-K
March 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

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: 1-14323

ENTERPRISE PRODUCTS PARTNERS L.P.
(Exact name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

76-0568219
(I.R.S. Employer Identification No.)

1100 Louisiana Street, 10th Floor, Houston, Texas 77002
(Address of Principal Executive
Offices) (Zip Code)

(713) 381-6500
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of Each Exchange On
Which Registered
Common Units New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of Enterprise Products Partners L.P.'s ("EPD") common units held by non-affiliates at June 30, 2010 was approximately \$15.7 billion based on the closing price of such equity securities in the daily composite list for transactions on the New York Stock Exchange. This figure excludes common units beneficially owned by certain affiliates, including the estate of Dan L. Duncan. There were 843,674,372 common units of EPD and 4,520,431 Class B units (which generally vote together with the common units) outstanding at February 1, 2011.

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SIGNIFICANT RELATIONSHIPS REFERENCED IN THIS
ANNUAL REPORT

Unless the context requires otherwise, references to “we,” “us,” “our,” “Enterprise” or “Enterprise Products Partners” intended to mean the business and operations of Enterprise Products Partners L.P. and its consolidated subsidiaries. References to “EPO” mean Enterprise Products Operating LLC, which is a wholly owned subsidiary of Enterprise, and its consolidated subsidiaries, through which Enterprise conducts substantially all of its business.

Enterprise is managed by its general partner, which is currently Enterprise Products Holdings LLC (“Enterprise GP”) as a result of the Holdings Merger (see below). Enterprise GP was formerly named EPE Holdings, LLC (“EPE Holdings”), which was the general partner of Enterprise GP Holdings L.P. (“Enterprise GP Holdings” or “Holdings”). Enterprise GP is a wholly owned subsidiary of Dan Duncan LLC, a Delaware limited liability company. Enterprise’s former general partner was Enterprise Products GP, LLC (“EPGP”).

On September 3, 2010, Holdings, Enterprise, Enterprise GP, EPGP and Enterprise ETE LLC (“MergerCo,” a Delaware limited liability company and a wholly owned subsidiary of Enterprise) entered into a merger agreement (the “Holdings Merger Agreement”). On November 22, 2010, the Holdings Merger Agreement was approved by the unitholders of Holdings and the merger of Holdings with and into MergerCo and related transactions were completed, with MergerCo surviving such merger (collectively, we refer to these transactions as the “Holdings Merger”). Enterprise’s membership interests in MergerCo were subsequently contributed to EPO. For additional information regarding the Holdings Merger, see Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this annual report.

The membership interests of Dan Duncan LLC are owned of record by a voting trust formed on April 26, 2006, pursuant to the Dan Duncan LLC Voting Trust Agreement dated April 26, 2006 (the “DD LLC Voting Trust Agreement”), among Dan Duncan LLC and Dan L. Duncan (as the record owner of all of the membership interests of Dan Duncan LLC immediately prior to the entering into of the DD LLC Voting Trust Agreement and as the initial sole voting trustee).

Immediately upon Mr. Duncan’s death on March 29, 2010, voting and dispositive control of all of the membership interests of Dan Duncan LLC was transferred pursuant to the DD LLC Voting Trust Agreement to three voting trustees. The current voting trustees under the DD LLC Voting Trust Agreement (the “DD LLC Trustees”) are: (i) Randa Duncan Williams, Mr. Duncan’s oldest daughter, who is also a director of Enterprise GP; (ii) Dr. Ralph S. Cunningham, who is a director and the Chairman of Enterprise GP and one of three managers of Dan Duncan LLC; and (iii) Richard H. Bachmann, who is a director of Enterprise GP and one of three managers of Dan Duncan LLC.

The DD LLC Voting Trust Agreement requires that there always be two “Independent Voting Trustees” serving. If Mr. Bachmann or Dr. Cunningham fail to qualify or cease to serve, then the substitute or successor Independent Voting Trustee(s) will be appointed by the then-serving Independent Voting Trustee, provided that if no Independent Voting Trustee is then serving or if a vacancy in a trusteeship of an Independent Voting Trustee is not filled within 90 days of the vacancy’s occurrence, the Chief Executive Officer (“CEO”) of our general partner, currently Michael A. Creel, will appoint the successor Independent Voting Trustee(s).

The DD LLC Voting Trust Agreement also provides for a “Duncan Voting Trustee.” The Duncan Voting Trustee is appointed by the children of Mr. Duncan acting by a majority or, if less than three children of Mr. Duncan are then living, unanimously. If for any reason no descendent of Mr. Duncan is appointed as the Duncan Voting Trustee, then such trusteeship will remain vacant until such time as a Duncan Voting Trustee is appointed in the manner provided above. If a Duncan Voting Trustee for any reason ceases to serve, his or her successor shall be appointed by the children of Mr. Duncan acting by majority or, if less than three children of Mr. Duncan are then living, unanimously.

Ms. Williams is currently the Duncan Voting Trustee.

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The estate of Mr. Duncan became the sole member party to the DD LLC Voting Trust Agreement upon the death of Mr. Duncan on March 29, 2010. For all purposes whatsoever, the DD LLC Trustees are required to treat the member party to the DD LLC Voting Trust Agreement as the beneficial owner of the membership interests of Dan Duncan LLC. However, the DD LLC Trustees collectively are the record owners of the Dan Duncan LLC membership interests and possess and are entitled to exercise all rights and powers of absolute ownership thereof and to vote, assent or consent with respect thereto and to take part in and consent to any corporate or members' actions (except those actions, if any, to which the DD LLC Trustees may not legally consent) and, subject to the provisions of the DD LLC Voting Trust Agreement, to receive distributions on the Dan Duncan LLC membership interests. Except as otherwise provided in the DD LLC Voting Trust Agreement, all actions taken by the DD LLC Trustees are by majority vote.

The DD LLC Trustees serve in such capacity without compensation, but they are entitled to incur reasonable charges and expenses deemed necessary and proper for administering the DD LLC Voting Trust Agreement and to reimbursement and indemnification.

The DD LLC Voting Trust Agreement will terminate when (i) the descendants of Mr. Duncan, and entities directly or indirectly controlled by or held for the benefit of any such descendant, no longer own any capital stock of EPCO (as defined below); or (ii) upon such earlier date designated by the DD LLC Trustees by an instrument in writing delivered to the member party to the DD LLC Voting Trust Agreement.

On April 27, 2010, the independent co-executors for the estate of Mr. Duncan were appointed by the probate court. The independent co-executors are Mr. Bachmann, Dr. Cunningham and Ms. Williams, who are the same persons as the current DD LLC Trustees and voting trustees under a separate voting trust agreement relating to a majority of EPCO's outstanding shares with voting rights (as more fully described below).

References to "EPCO" mean Enterprise Products Company (formerly EPCO, Inc.) and its privately held affiliates. Prior to Mr. Duncan's death, we, EPO, Duncan Energy Partners (as defined below), DEP GP (as defined below), EPGP, Holdings and Enterprise GP were affiliates under the common control of Mr. Duncan, since he was the controlling shareholder of EPCO and the controlling member of Dan Duncan LLC. A majority of the outstanding voting capital stock of EPCO is owned of record by a voting trust formed on April 26, 2006, pursuant to the EPCO, Inc. Voting Trust Agreement (the "EPCO Voting Trust Agreement"), among EPCO and Mr. Duncan (as the record owner of a majority of the outstanding voting capital stock of EPCO immediately prior to the entering into of the EPCO Voting Trust Agreement and as the initial sole voting trustee).

Immediately upon Mr. Duncan's death, voting and dispositive control of such majority of the outstanding voting capital stock of EPCO was transferred pursuant to the EPCO Voting Trust Agreement to three voting trustees (the "EPCO Trustees"). The current EPCO Trustees are: (i) Ms. Williams, who serves as Chairman of EPCO; (ii) Dr. Cunningham, who serves as a Vice Chairman of EPCO; and (iii) Mr. Bachmann, who serves as the President and CEO of EPCO. Ms. Williams, Dr. Cunningham and Mr. Bachmann are also currently directors of EPCO. The current EPCO Trustees are the same as the current DD LLC Trustees, which control Dan Duncan LLC. The current EPCO Trustees are also the same persons as the individuals appointed on April 27, 2010 as the independent co-executors of the estate of Mr. Duncan.

References to "Duncan Energy Partners" mean Duncan Energy Partners L.P., which is a consolidated subsidiary of EPO. Duncan Energy Partners 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 "DEP." References to "DEP GP" mean DEP Holdings, LLC, which is the general partner of Duncan Energy Partners and is wholly owned by EPO.

References to “TEPPCO” and “TEPPCO GP” mean TEPPCO Partners, L.P. and Texas Eastern Products Pipeline Company, LLC (which is the general partner of TEPPCO), respectively, prior to their

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mergers with our subsidiaries on October 26, 2009. We refer to such related mergers both individually and in the aggregate as the “TEPPCO Merger.”

References to “Energy Transfer Equity” mean the business and operations of Energy Transfer Equity, L.P. and its consolidated subsidiaries, which include Energy Transfer Partners, L.P. (“ETP”) and, effective May 26, 2010, Regency Energy Partners LP (“RGNC”). Energy Transfer Equity is a publicly traded Delaware limited partnership, the common units of which are listed on the NYSE under the ticker symbol “ETE.” ETP is a publicly traded Delaware limited partnership, the common units of which are listed on the NYSE under the ticker symbol “ETP.” RGNC is a publicly traded Delaware limited partnership, the common units of which are traded on the NASDAQ stock market under the ticker symbol “RGNC.” The general partner of Energy Transfer Equity is LE GP, LLC (“LE GP”). We own noncontrolling interests in Energy Transfer Equity, which we account for using the equity method of accounting.

References to the “Employee Partnerships” mean EPE Unit L.P., EPE Unit II, L.P., EPE Unit III, L.P., Enterprise Unit L.P. and EPCO Unit L.P., collectively, all of which were privately held affiliates of EPCO. The Employee Partnerships were liquidated in August 2010.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report on Form 10-K for the year ended December 31, 2010 (“annual report”) contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by us and information currently available to us. When used in this document, words such as “anticipate,” “project,” “expect,” “plan,” “seek,” “goal,” “estimate,” “forecast,” “intend,” “could,” “should,” “will,” “believe,” similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions as described in more detail in Item 1A of this annual report. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. You should not put undue reliance on any forward-looking statements. The forward-looking statements in this annual report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

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PART I

Items 1 and 2. Business and Properties.

General

We are a North American midstream energy company providing a wide range of services to producers and consumers of natural gas, natural gas liquids, or NGLs, crude oil, refined products and certain petrochemicals. In addition, we are an industry leader in the development of pipeline and other midstream energy infrastructure in the continental United States and Gulf of Mexico. We conduct substantially all of our business through EPO. Our principal executive offices are located at 1100 Louisiana Street, 10th Floor, Houston, Texas 77002, our telephone number is (713) 381-6500 and our website address is www.epplp.com.

We are a publicly traded Delaware limited partnership formed in 1998, the common units of which are listed on the NYSE under the ticker symbol "EPD." We are owned 100% by our limited partners from an economic perspective. We are managed and controlled by Enterprise GP, which has a non-economic general partner interest in us. Our general partner is a wholly owned subsidiary of Dan Duncan LLC.

As generally used in the energy industry and in this document, the identified terms have the following meanings:

/d	= per day
BBtus	= billion British thermal units
Bcf	= billion cubic feet
Lbs	= pounds
MBPD	= thousand barrels per day
MBbls	= thousand barrels
MMBbls	= million barrels
MMBtus	= million British thermal units
MMcf	= million cubic feet
TBtus	= trillion British thermal units

Business Strategy

We operate an integrated network of midstream energy assets. Our business strategies are to:

- § capitalize on expected increases in natural gas, NGL and crude oil production resulting from development activities including in the Rocky Mountains and U.S. Gulf Coast regions, including the Barnett Shale, Haynesville Shale and Eagle Ford Shale producing regions;
- § capitalize on expected demand growth for natural gas, NGLs, crude oil and petrochemical and refined products;
- § maintain a diversified portfolio of midstream energy assets and expand this asset base through growth capital projects and accretive acquisitions of complementary midstream energy assets;
- § enhance the stability of our cash flows by investing in pipelines and other fee-based businesses; and

§ share capital costs and risks through joint ventures or alliances with strategic partners, including those that will provide the raw materials for these growth capital projects or purchase the projects' end products.

As noted above, part of our business strategy involves expansion through growth capital projects. We expect that these projects will enhance our existing asset base and provide us with additional growth opportunities in the future.

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Offer to Acquire Duncan Energy Partners

On February 22, 2011, Enterprise submitted a proposal to the Audit, Conflicts and Governance Committee of the Board of Directors of DEP GP to purchase all of Duncan Energy Partners' outstanding publicly-held common units through a unit-for-unit exchange. Subject to negotiation and execution of a definitive agreement, Enterprise would offer 0.9545 of its common units for each outstanding publicly-held Duncan Energy Partners' common unit as part of a transaction that would be structured as a merger between Duncan Energy Partners and a wholly owned subsidiary of Enterprise. The proposed exchange ratio represents a value of \$42.00 per common unit, or a premium of approximately 30%, based on the 10-day average closing price of Duncan Energy Partners' common units on February 18, 2011. If the proposed merger is approved, Enterprise will file a registration statement, which will include a proxy statement of Duncan Energy Partners and other materials, with the SEC.

Holdings Merger

On November 22, 2010, the Holdings Merger Agreement was approved by the unitholders of Holdings and the merger of Holdings with MergerCo and related transactions were completed, with MergerCo surviving such merger. At the effective time of the Holdings Merger, Enterprise GP (which was the general partner of Holdings prior to consummation of the Holdings Merger) succeeded as Enterprise's general partner, and each issued and outstanding unit representing limited partner interests in Holdings was cancelled and converted into the right to receive Enterprise common units based on an exchange ratio of 1.5 Enterprise common units for each Holdings unit. Enterprise issued an aggregate of 208,813,454 of its common units (net of 23 fractional common units cashed out) as consideration in the Holdings Merger and, immediately after the merger, cancelled 21,563,177 of its common units previously owned by Holdings.

In connection with the Holdings Merger, Enterprise's partnership agreement was amended and restated to effect the cancellation of its general partner's 2% economic general partner interest and its incentive distribution rights in Enterprise. In addition, a privately held affiliate of EPCO agreed to temporarily waive the regular quarterly cash distributions it would otherwise receive from Enterprise on an initial amount of 30,610,000 of Enterprise's common units (the "Designated Units") for a five-year period after the merger closing date. The number of Designated Units to which the temporary distribution waiver applies is as follows for distributions to be paid during the following periods, if any: 30,610,000 during 2011; 26,130,000 during 2012; 23,700,000 during 2013; 22,560,000 during 2014; and 17,690,000 during 2015.

For information regarding other developments during 2010, see "Significant Recent Developments" included under Item 7 of this annual report, which is incorporated by reference into this Item 1 and 2 discussion.

Basis of Presentation

Prior to the Holdings Merger, Enterprise was a consolidated subsidiary of Holdings, which was Enterprise's parent. Upon completion of the Holdings Merger, Holdings merged with and into a wholly owned subsidiary of Enterprise. The Holdings Merger was accounted for as an equity transaction, and no gain or loss was recognized, in accordance with Accounting Standards Codification ("ASC") 810-10-45, Consolidation – Overall – Changes in Parent's Ownership Interest in a Subsidiary. The Holdings Merger results in Enterprise GP Holdings L.P. being considered the surviving consolidated entity for accounting purposes, while Enterprise Products Partners L.P. is the surviving consolidated entity for legal and reporting purposes. For accounting purposes, Holdings is deemed the acquirer of the noncontrolling interests in Enterprise that were previously recognized in Holdings' consolidated financial statements (i.e., the acquisition of Enterprise's limited partner interests that were owned by parties other than Holdings).

As a result of the Holdings Merger, Enterprise's consolidated financial and operating results prior to November 22, 2010 have been presented as if Enterprise were Holdings from an accounting perspective (i.e., the financial statements of Holdings became the historical financial statements of Enterprise). While it was a publicly traded partnership, Holdings (NYSE: EPE) electronically filed its annual and quarterly

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consolidated financial statements with the U.S. Securities and Exchange Commission. You can access this information at www.sec.gov.

See Note 1 of the Notes to Consolidated Financial Statements included under Item 8 of this annual report for additional information regarding the basis of presentation of our general purpose financial statements. Such information is incorporated by reference into this Item 1 and 2 discussion.

Significant Growth Capital Projects

Eagle Ford Shale. We continue to expand our midstream asset capabilities in the Eagle Ford Shale supply basin in South Texas and recently announced new commercial agreements with several major producers including EOG Resources, Inc., Anadarko Petroleum Corporation (“Anadarko”), Pioneer Natural Resources USA, Inc., Petrohawk Energy Corporation and Chesapeake Energy Corporation. In June 2010, we announced several new natural gas, NGL and crude oil infrastructure construction projects to accommodate growing production volumes from the Eagle Ford Shale. We plan to install approximately 360 miles of pipelines, build a new natural gas processing facility in South Texas and construct a 75 MBPD NGL fractionator at our Mont Belvieu complex. Following completion of these construction projects, which is expected in mid-2012, we will have the capability to gather, transport and process almost 2.1 Bcf/d of natural gas and produce more than 150 MBPD of NGLs from South Texas and the Eagle Ford Shale.

The planned construction projects include an expansion of our Eagle Ford rich natural gas mainline that will involve adding three additional pipeline segments totaling 168 miles. Upon completion, the rich gas mainline system and associated laterals will consist of approximately 300 miles of pipelines representing gathering and transportation capacity of more than 600 MMcf/d. The east end of the Eagle Ford mainline will terminate at a new cryogenic natural gas processing facility we plan to build that will produce in excess of 60 MBPD of mixed NGLs. Takeaway capacity for residue gas from the new processing facility will be provided by a combination of our existing pipeline infrastructure and construction of additional natural gas pipelines, including a new 64-mile, 36-inch diameter pipeline that terminates at our Wilson natural gas storage facility. An expansion project to provide an incremental 5 Bcf of natural gas storage capacity adjacent to our Wilson facility is currently underway.

Transportation of mixed NGLs from our new processing facility to our Mont Belvieu complex will be accomplished by expanding our infrastructure, highlighted by the planned construction of a new 127-mile, 16-inch diameter NGL pipeline. This new pipeline will have an initial transportation capacity of more than 80 MBPD, and will be readily expandable to over 210 MBPD if needed. To accommodate expected volumes from the Eagle Ford Shale and other producing regions, we plan to construct a fifth NGL fractionator with a design capacity of 75 MBPD at our Mont Belvieu complex. The addition of this fifth unit will increase NGL fractionation capacity at our Mont Belvieu complex to approximately 380 MBPD.

In addition to the natural gas and NGL projects described above, we are also constructing a 140-mile expansion of our South Texas System to serve crude oil producers in the Eagle Ford Shale basin. This pipeline expansion will facilitate crude oil deliveries to the Cushing and Houston markets and is expected to be completed in the fourth quarter of 2011. We are also constructing a new crude oil terminal, which will be strategically located southeast of Houston, Texas close to two large-diameter crude oil distribution pipelines. The new crude oil terminal, which is expected to begin service in mid-2012, will provide access to major refiners in Texas City, Texas as well as other installations in Pasadena/Deer Park and Baytown, Texas and along the Houston Ship Channel via our Seaway Crude Pipeline System.

In the aggregate, the estimated cost of our Eagle Ford expansion projects is approximately \$2.7 billion (including capitalized interest), which we expect to be incurred from 2010 to 2012.

Haynesville Extension. In October 2009, we announced plans to extend our Acadian Gas System into the rapidly growing Haynesville Shale supply basin in northwest Louisiana. Our 270-mile Haynesville Extension pipeline will have transportation capacity of up to 1.8 Bcf/d of natural gas and will extend from our existing Acadian Gas System to the Haynesville, Louisiana production region. The pipeline is also

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planned to interconnect with interstate pipelines in central and southern Louisiana. The pipeline is expected to be completed in September 2011.

The total budgeted cost of the Haynesville Extension is approximately \$1.56 billion (including capitalized interest). In June 2010, Duncan Energy Partners agreed to fund 66% of the Haynesville Extension project costs and EPO will fund the remaining 34% of such expenditures. In order to fund its capital spending requirements under the Haynesville Extension project, Duncan Energy Partners entered into new long-term senior unsecured credit facilities having an aggregate borrowing capacity of \$1.25 billion in October 2010.

For additional information regarding our capital project expenditures, see “Liquidity and Capital Resources – Capital Spending” included under Item 7 of this annual report.

Segment Discussion

Our midstream energy asset network links producers of natural gas, NGLs and crude oil from some of the largest supply basins in the United States, Canada and the Gulf of Mexico with domestic consumers and international markets. We have six reportable business segments:

- § NGL Pipelines & Services;
- § Onshore Natural Gas Pipelines & Services;
- § Onshore Crude Oil Pipelines & Services;
- § Offshore Pipelines & Services;
- § Petrochemical & Refined Products Services; and
- § Other Investments.

Our business segments are generally organized and managed according to the type of services rendered (or technologies employed) and products produced and/or sold.

The following sections present an overview of our business segments, including information regarding the principal products produced, services rendered, properties owned, seasonality and competition. Our results of operations and financial condition are subject to a variety of risks. For information regarding our risk factors, see Item 1A of this annual report.

Our business activities are subject to various federal, state and local laws and regulations governing a wide variety of topics, including commercial, operational, environmental, safety and other matters. For a discussion of the principal effects such laws and regulations have on our business, see “Regulation” and “Environmental and Safety Matters” included within this Item 1 and 2.

Our consolidated revenues are derived from a wide customer base. During 2010 and 2009, our largest non-affiliated customer was Shell Oil Company and its affiliates (“Shell”), which accounted for 9.4% and 9.8% of our consolidated revenues, respectively. During 2008, our largest non-affiliated customer was Valero Energy Corporation and its affiliates (“Valero”), which accounted for 11.2% of our consolidated revenues.

For information regarding our results of operations, including significant measures of historical throughput, production and processing rates, see Item 7 of this annual report. In addition, certain of our operations entail the use of derivative instruments. For information regarding our use of commodity derivative instruments, see Note 6 of the Notes to Consolidated Financial Statements included under Item 8 of this annual report.

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Financial Information by Business Segment

For detailed financial information regarding our business segments, see Note 14 of the Notes to Consolidated Financial Statements included under Item 8 of this annual report. Such financial information is incorporated by reference into this Item 1 and 2 discussion.

NGL Pipelines & Services

Our NGL Pipelines & Services business segment includes our: (i) natural gas processing business and related NGL marketing activities; (ii) NGL pipelines aggregating approximately 16,900 miles; (iii) NGL and related product storage and terminal facilities with approximately 160 MMBbls of working storage capacity; and (iv) NGL fractionation facilities. This segment also includes our import and export terminal operations.

NGL products (ethane, propane, normal butane, isobutane and natural gasoline) are used as raw materials by the petrochemical industry, as feedstocks by refiners in the production of motor gasoline and by industrial and residential users as fuel. Ethane is primarily used in the petrochemical industry as a feedstock for ethylene production, one of the basic building blocks for a wide range of plastics and other chemical products. Propane is used both as a petrochemical feedstock in the production of ethylene and propylene and as a heating, engine and industrial fuel. Normal butane is used as a petrochemical feedstock in the production of ethylene and butadiene (a key ingredient of synthetic rubber), as a blendstock for motor gasoline and to produce isobutane through isomerization. Isobutane is fractionated from mixed butane (a mixed stream of normal butane and isobutane) or produced from normal butane through the process of isomerization, and is used in refinery alkylation to enhance the octane content of motor gasoline, in the production of isooctane and other octane additives and in the production of propylene oxide. Natural gasoline, a mixture of pentanes and heavier hydrocarbons, is primarily used as a blendstock for motor gasoline or as a petrochemical feedstock.

Natural gas processing and related NGL marketing activities. At the core of our natural gas processing business are 25 processing plants located across Colorado, Louisiana, Mississippi, New Mexico, Texas and Wyoming. Natural gas produced at the wellhead (especially in association with crude oil) contains varying amounts of NGLs. This rich natural gas in its raw form is usually not acceptable for transportation in the nation's natural gas pipeline systems or for commercial use as a fuel. Natural gas processing plants remove NGLs from the natural gas stream, which enables the natural gas to meet pipeline and commercial quality specifications. In addition, on an energy equivalent basis, NGLs generally have a greater economic value as a raw material for petrochemical and motor gasoline production than their value as components of a natural gas stream. After extraction by the processing plants, we typically transport the mixed NGLs to a centralized facility for fractionation into purity NGL products such as ethane, propane, normal butane, isobutane and natural gasoline. The purity NGL products can then be used in our NGL marketing activities to meet contractual requirements or sold on spot and forward markets.

When operating and extraction costs of natural gas processing plants are higher than the incremental value of the NGL products that would be extracted, the recovery levels of certain NGL products, principally ethane, may be reduced or eliminated. This leads to a reduction in NGL volumes available for transportation and fractionation.

In our natural gas processing business, we enter into percent-of-liquids contracts, percent-of-proceeds contracts, fee-based contracts, hybrid contracts (a combination of percent-of-liquids and fee-based contract terms), keepwhole contracts and margin-band contracts. Under keepwhole and margin-band contracts, we take ownership of mixed NGLs extracted from the producer's natural gas stream and recognize revenue when the extracted NGLs are delivered and sold to customers on NGL marketing sales contracts. In the same way, revenue is recognized under our percent-of-liquids contracts except that the volume of NGLs we extract and sell is less than the total amount of NGLs extracted from the producers' natural gas. Under a percent-of-liquids contract, the producer retains title to a percentage

of the mixed NGLs we extract and generally bears the cost of natural gas associated with shrinkage and plant fuel. The value of natural gas lost as a result of NGL extraction (i.e., shrinkage) and consumed as plant fuel is

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referred to as plant thermal reduction (“PTR”). Under a percent-of-proceeds contract, we share in the proceeds generated from the sale of the mixed NGLs we extract on the producer’s behalf. If a cash fee for natural gas processing services is stipulated by the contract, we record revenue when the natural gas has been processed and delivered to the producer. The NGL volumes we earn and take title to in connection with our processing activities are referred to as our equity NGL production.

In general, our percent-of-liquids, hybrid and keepwhole contracts give us the right (but not the obligation) to process natural gas for a producer; thus, we are protected from processing natural gas at an economic loss during times when the sum of our costs exceeds the value of the mixed NGLs in which we would take ownership. Generally, our natural gas processing agreements have terms ranging from month-to-month to life of the producing lease. Intermediate terms of one to ten years are also common.

To the extent that we are obligated under our keepwhole and margin-band gas processing contracts to compensate the producer for the natural gas equivalent energy value of mixed NGLs we extract from the natural gas stream, we are exposed to various risks, primarily commodity price fluctuations. However, our margin band contracts typically contain terms which limit our exposure to such risks. The prices of natural gas and NGLs are subject to fluctuations in response to changes in supply and demand and a variety of additional factors that are beyond our control. Periodically, we attempt to mitigate these risks through the use of commodity derivative instruments (e.g., forward NGL sales contracts).

Our NGL marketing activities generate revenues from the sale and delivery of NGLs we take title to through our processing activities (i.e., our equity NGL production) and open market and contract purchases from third parties. These sales contracts may also include forward product sales contracts. In general, sales prices referenced in the contracts utilized within our NGL marketing activities are market-based and may include pricing differentials for such factors as delivery location. The majority of our consolidated revenues and costs and expenses are generated from marketing activities, including those associated with NGLs. Changes in our consolidated revenues and operating costs and expenses period-to-period are explained in part by changes in market prices for the products we sell. The results of operations from our NGL marketing activities are generally dependent upon the volume of products sold and the sales prices charged to customers. The volume of products sold may fluctuate from period-to-period depending on market conditions, volumes produced and opportunities, which may be influenced by current and forward market prices for purity NGL products and our hedging activities.

Our NGL marketing activities rely on inventories of mixed NGLs and purity NGL products. Our inventories of ethane, propane and normal butane are typically at higher levels from March through November since these products are normally in higher demand and at higher price levels during the winter months. Isobutane and natural gasoline inventories are generally stable and less cyclical throughout the year. Generally, our inventory cycle begins in late-February to mid-March (the seasonal low point), building through September, and remaining level until early December before being drawn down through winter until the seasonal low is reached again.

For additional information regarding our inventories and consolidated segment revenues and expenses, see Notes 7 and 14, respectively, of the Notes to Consolidated Financial Statements included under Item 8 of this annual report.

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NGL pipelines, storage facilities and import/export terminals. Our NGL pipelines transport mixed NGLs and other hydrocarbons from natural gas processing facilities, refineries and import terminals to fractionation plants and storage facilities; distribute and collect purity NGL products to and from fractionation plants, petrochemical plants, export facilities and refineries; and deliver propane to customers along the Dixie Pipeline and certain sections of the Mid-America Pipeline System. Revenues from our NGL pipeline transportation agreements are generally based upon a fixed fee per gallon of liquids transported multiplied by the volume delivered. Accordingly, the results of operations for this business are generally dependent upon the volume of product transported and the level of fees charged to customers (including those charged internally, which are eliminated in the preparation of our consolidated financial statements). The transportation fees charged under these arrangements are either contractual or regulated by governmental agencies, including the Federal Energy Regulatory Commission (“FERC”). Excluding inventories held in connection with our marketing activities, we typically do not take title to the products transported by our NGL pipelines; rather, the shipper retains title and the associated commodity price risk. However, we occasionally act as shipper for certain volumes being transported.

Our NGL and related product storage facilities are integral parts of our operations used for the storage of products owned by us and our customers. In general, our underground salt dome storage caverns (or wells) are used to store mixed NGLs and purity NGL, petrochemical and refined products. We collect storage revenues under our NGL and related product storage contracts based on the number of days a customer has volumes in storage multiplied by a storage rate (as defined in each contract). With respect to capacity reservation agreements, we collect a fee for reserving storage capacity for certain customers in our underground storage wells. The customers pay reservation fees based on the level of storage capacity reserved rather than the actual volumes stored. When a customer exceeds its reserved capacity, we charge those customers an excess storage fee. In addition, we generally charge customers throughput fees based on volumes delivered into and subsequently withdrawn from storage. Accordingly, the profitability of our storage operations is dependent upon the level of storage capacity reserved by customers, the volume of product delivered into and withdrawn from the underground caverns and the level of throughput fees charged.

We operate NGL import and export facilities located on the Houston Ship Channel in southeast Texas and an NGL terminal in Providence, Rhode Island with ship unloading capabilities. Our NGL import facility is primarily used to offload volumes for delivery to our storage and fractionation facilities located in Mont Belvieu, Texas. Our NGL export facility is used for loading refrigerated marine tankers for customers. Revenues from our terminal services are primarily based on fees per unit of volume loaded or unloaded and may also include demand payments if terminaling contracts are cancelled. Accordingly, the profitability of our NGL terminal activities primarily depends on the available quantities of NGLs to be loaded and offloaded and the fees we charge for these services.

NGL fractionation. We own or have interests in 11 NGL fractionation facilities located in Texas, Louisiana, Colorado and Ohio. NGL fractionators separate mixed NGL streams into purity NGL products. The primary sources of mixed NGLs fractionated in the United States are domestic natural gas processing plants and crude oil refineries and imports of butane and propane mixtures. Mixed NGLs sourced from domestic natural gas processing plants and crude oil refineries are typically transported by NGL pipelines and, to a lesser extent, by railcar and truck to NGL fractionation facilities.

Mixed NGLs extracted by domestic natural gas processing plants represent the largest source of volumes processed by our NGL fractionators. Based upon industry data, we believe that sufficient volumes of mixed NGLs, especially those originating from Gulf Coast, Rocky Mountain and Midcontinent natural gas processing plants, will be available for fractionation in commercially viable quantities for the foreseeable future. Significant volumes of mixed NGLs are contractually committed to be processed at our NGL fractionation facilities by joint owners and third-party customers.

Our NGL fractionation facilities process mixed NGL streams for third-party customers and support our NGL marketing activities. We typically earn revenues from NGL fractionation under fee-based arrangements. These fees (usually stated in cents per gallon) are contractually subject to adjustment for changes in certain fractionation expenses, including natural gas fuel costs. At our Norco facility in