Energy Transfer Partners, L.P.
Form 10-K
October 30, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended August 31, 2007

OR

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

For the Transition Period from ______ to ______

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

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

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)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

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 x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

See definition of accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer x Accelerated filer ¨ Non accelerated filer ¨

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

The aggregate market value as of February 28, 2007, of the registrant s Common Units held by non-affiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was $4,004,074,991. Common Units held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Units have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At October 16, 2007, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 137,067,059 Common Units
Documents Incorporated by Reference: None

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ENERGY TRANSFER PARTNERS, L.P.

2007 FORM 10-K ANNUAL REPORT

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PART I

Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by us in periodic press releases and some oral statements of our officials during presentations about the Partnership, include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as anticipate, believe, intend, project, plan, expect , continue, estimate, goal, forecast, may, will, or similar expressio forward-looking statements. Although we and our General Partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, neither we or our General Partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. When considering forward-looking statements, please read the section titled Risk Factors included under Item 1A of this annual report.

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.
Wobbe	A number representing the interchange ability of fuel gases an indicator of the similarity between a specific natural gas and propane-air mixture.

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ITEM 1. BUSINESS

Overview

We (Energy Transfer Partners, L.P., a Delaware limited partnership, ETP or the Partnership) are one of the three largest publicly traded master limited partnerships in the United States in terms of equity market capitalization (approximately $7.4 billion as of October 15, 2007). The activities in which we are engaged, all of which are in the United States, and the wholly-owned subsidiary operating partnerships (collectively referred to as the Operating Partnerships) through which we conduct those activities are as follows:

- Natural gas operations, consisting of the following segments:
  - natural gas midstream and intrastate transportation and storage through La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company (ETC OLP),
  - interstate natural gas transportation services through Energy Transfer Interstate Holdings, LLC (ET Interstate), the parent company of Transwestern Pipeline Company, LLC (Transwestern) and ETC Midcontinent Express Pipeline, LLC (ETC MEP);
- Retail propane through Heritage Operating, L.P (HOLP) and Titan Energy Partners, L.P. (Titan).

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

Significant Fiscal Year 2007 Achievements

Our significant fiscal year 2007 achievements included the following, as discussed in more detail herein:

- Revenues of approximately $7.0 billion, operating income of approximately $830.0 million and net income of approximately $676.0 million. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.
- The acquisition of the Transwestern pipeline on December 1, 2006. See Note 2 to our consolidated financial statements.
- The execution of an agreement with Kinder Morgan Energy Partners, L.P. for a 50/50 joint development of the Midcontinent Express pipeline (MEP). See Note 3 to our consolidated financial statements.
- Completion of the Cleburne to Carthage pipeline.
- Began construction of the Southeast Bossier pipeline, approximately 157 miles of predominately 42-inch pipe connecting our East Texas and Cleburne to Carthage pipelines with the Texoma pipeline (which is a part of our HPL System) north of Beaumont, Texas, which we expect to complete by the second calendar quarter of 2008.

Began construction of the Paris Loop pipeline, a 135 mile pipeline connecting our existing pipelines in the Barnett Shale region to our Texoma pipeline in Lamar County, Texas, which we expect to complete in the second calendar quarter of 2008.

Initiation of the Phoenix project, a planned expansion of the Transwestern pipeline.

Completion of the first phase of the natural gas processing plant in Godley, Texas.

Other Developments

On May 7, 2007, Ray Davis, previously the Co-Chairman and Co-Chief Executive Officer of ETP (see below), and Natural Gas Partners VI, L.P. (NGP) and affiliates of each, sold approximately 38.9 million Common Units of ETE (17.6% of the outstanding Common Units of ETE) to Enterprise GP Holdings, L.P. (Enterprise or EPE). In addition to the purchase of ETE Common Units, Enterprise also acquired a 34.9% non-controlling equity interest in the General Partner of ETE, LE GP, L.L.C. (LE GP). As a result of these transactions, EPE and its subsidiaries are considered related parties (see Note 12 of our consolidated financial statements).

Ray C. Davis, previously the Co-Chief Executive Officer and Co-Chairman of ETP, and Co-Chairman of ETE, retired from these positions effective as of August 15, 2007. As a result of Mr. Davis retirement, Kelcy L. Warren, formerly

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Co-Chief Executive Officer and Co-Chairman of ETP and Co-Chairman of ETE, became the sole Chief Executive Officer and Chairman of ETP and sole Chairman of ETE upon the effective date of Mr. Davis retirement. Mr. Davis will continue to serve as a director of ETP and ETE.

Segment Overview and Business Description

Our segments and business are as described below. See Notes 1 and 14 to our consolidated financial statements for additional segment information and the financial information of our segments for our fiscal years ended August 31, 2007, 2006 and 2005.

Natural Gas Operations

The following map depicts the major components of our natural gas operations:

Midstream

Southeast Texas System

- 4,300 miles of natural gas pipeline
- 1 natural gas processing plant (the LaGrange plant) with aggregate capacity of 240 MMcf/d
- 5 natural gas treating facilities with aggregate capacity of 720 MMcf/d
- 3 natural gas conditioning facilities with aggregate capacity of 450 MMcf/d

North Texas System

- 160 miles of natural gas pipeline
- 1 natural gas processing plant (the Godley plant) with current capacity of approximately 300 MMcf/d and construction in progress to increase the aggregate processing capacity to approximately 500 MMcf/d
- 1 natural gas conditioning facility with capacity of 100 MMcf/d

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Canyon Gathering System (acquired October 2007)

1,800 miles of natural gas pipeline

6 natural gas conditioning facilities with aggregate capacity of 90 MMcf/d

Intrastate Transportation Pipelines and Storage Facilities

ET Fuel System

Capacity of 3.1 Bcf/d

2,200 miles of natural gas pipeline

2 storage facilities with 12.4 Bcf of total working capacity

Oasis pipeline

Capacity of 1.2 Bcf/d

583 miles of natural gas pipeline

Connects Waha to Katy market hubs

Houston pipeline system (HPL System)

Capacity of 4.4 Bcf/d

4,400 miles of natural gas pipeline

6 natural gas treating facilities with aggregate capacity of 280 MMcf/d

Bammel storage facility with 62 Bcf of total working capacity

East Texas pipeline

Capacity of 740 MMcf/d

168 miles of natural gas pipeline

Interstate Transportation Pipelines

Transwestern pipeline (acquired December 2006)

Capacity of 2.1 Bcf/d

2,400 miles of interstate natural gas pipeline

Midcontinent Express pipeline

Initial planned capacity of 1.4 Bcf/d

500 miles of interstate natural gas pipeline

50/50 joint venture with Kinder Morgan

Our Midstream Operations

Our midstream business owns and operates approximately 6,260 miles of in service natural gas gathering pipelines, three natural gas processing plants, five natural gas treating facilities, and ten natural gas conditioning facilities. Our midstream segment focuses on the gathering, compression, treating, blending, processing and marketing of natural gas, and our operations are currently concentrated in the Austin Chalk trend of southeast Texas, the Permian Basin of west Texas, the Barnett Shale in north Texas, the Bossier Sands in east Texas, and the Uinta and Piceance Basins in Utah and Colorado.

The midstream segment accounted for approximately 15% of our total consolidated operating income for the year ended August 31, 2007. Our midstream segment results are derived primarily from margins we realize for natural gas volumes that are gathered, transported, purchased and sold through our pipeline systems, processed at our processing and treating facilities, and the volumes of NGLs processed at our facilities. We also market natural gas on our pipeline systems in addition to other pipeline systems to realize incremental revenue on gas purchased, increase pipeline utilization and provide other services that are valued by our customers. In addition we generate income from limited trading activities, principally from the use of derivatives, in accordance with our commodity risk management policy. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk .

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Our midstream segment consists of the following:

- The Southeast Texas System, a 4,300-mile integrated system located in southeast Texas that gathers, compresses, treats, processes and transports natural gas from the Austin Chalk trend. The Southeast Texas System is a large natural gas gathering system covering thirteen counties between Austin and Houston. The system includes the La Grange processing plant, five treating facilities and three conditioning facilities. This system is connected to the Katy Hub through the 168-mile East Texas pipeline and is also connected to the Oasis pipeline, as well as two power plants.

The La Grange processing plant is a cryogenic natural gas processing plant that processes the rich natural gas that flows through our system to produce residue gas and NGLs. The plant has a processing capacity of approximately 240 MMcf/d. Our five treating facilities have an aggregate capacity of 700 MMcf/d. These treating facilities remove carbon dioxide and hydrogen sulfide from natural gas gathered into our system before the natural gas is introduced to transportation pipelines to ensure that the gas meets pipeline quality specifications. Our three conditioning facilities have an aggregate capacity of 450 MMcf/d. These conditioning facilities remove heavy hydrocarbons from the gas gathered into our systems so the gas can be redelivered and meet downstream pipeline hydrocarbon dew point specifications.

- The North Texas System, a 160-mile integrated system located in four counties in North Texas that gathers, compresses, treats, processes and transports natural gas from the Barnett Shale trend. The system includes our Godley plant, as discussed below.

The Godley plant was built in two phases to process rich natural gas produced from the Barnett Shale and is connected with the North Texas System and the ET Fuel System. The facility consists of a cryogenic processing plant with processing capacity of approximately 300 MMcf/d. Construction is in progress to increase the aggregate processing capacity to approximately 500 MMcf/d. Construction is scheduled to be completed in the third calendar quarter of 2008.

- The Canyon Gathering System consists of approximately 1,800 miles of gathering pipeline ranging in diameters from two inches to 16 inches in the Piceance-Uinta Basin of Colorado and Utah and six conditioning plants with an aggregated processing capacity of 90 MMcf/d. The system currently gathers approximately 130,000 MMBtu/d from 1,400 wells and is connected to five major pipeline systems.

- Interests in various midstream assets located in Texas and Louisiana, including the Vantex System, the Rusk County Gathering System, the Whiskey Bay System, and the Chalkley Transmission System. On a combined basis, these assets have a capacity of approximately 550 MMcf/d.

- Marketing operations through our producer services business, in which we market the natural gas that flows through our assets, referred to as on-system gas, and attract other customers by marketing volumes of natural gas that do not move through our assets, referred to as off-system gas. For both on-system and off-system gas, we purchase natural gas from natural gas producers and other supply points and sell the natural gas to utilities, industrial consumers, other marketers and pipeline companies, thereby generating gross margins based upon the difference between the purchase and resale prices.

Substantially all of our on-system marketing efforts involve natural gas that flows through either the Southeast Texas System or our intrastate transportation pipelines. For the off-system gas, we purchase gas or act as an agent for small independent producers that do not have marketing operations. We develop relationships with natural gas producers to facilitate the purchase of their production on a long-term basis. We believe that this business provides us with strategic insight and market intelligence, which may impact our expansion and acquisition strategy.

Our Intrastate Transportation and Storage Operations

Our intrastate transportation and storage business owns and operates approximately 7,500 miles of natural gas transportation pipelines, three natural gas storage facilities and six natural gas treating facilities.

Through ETC OLP, we own the largest intrastate pipeline system in the United States with interconnects to major consumption areas throughout the United States. Our intrastate transportation and storage segment focuses on the transportation of natural gas between major markets from various natural gas producing areas through connections with other pipeline systems as well as through our Oasis pipeline, our East Texas pipeline, our natural gas pipeline and storage assets that are referred to as the ET Fuel System, and our HPL System, which are described below.

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Our intrastate transportation and storage operations accounted for approximately 59% of our total consolidated operating income for the year ended August 31, 2007. The results from our intrastate transportation and storage segment are primarily derived from the fees we charge to transport natural gas on our pipelines, including a fuel retention component. We also generate revenues and margin from the sale of natural gas to electric utilities, independent power plants, local distribution companies, industrial end-users, and other marketing companies on the HPL System. Generally, we purchase natural gas from either the market (including purchases from our midstream segment s producer services) or from producers at the wellhead. To the extent the natural gas comes from producers, it is purchased at a discount to a specified price and resold to customers based on an index price.

We also utilize our Bammel storage facility to engage in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. We generally purchase physical natural gas and then sell financial contracts at a price sufficient to cover our carrying costs and provide for a gross profit margin.

Our intrastate transportation and storage segment consists of the following:

The ET Fuel System, which serves some of the most active drilling areas in the United States, is comprised of approximately 2,200 miles of intrastate natural gas pipeline and related natural gas storage facilities. With approximately 460 receipt and/or delivery points, including interconnects with pipelines providing direct access to power plants and interconnects with other intrastate and interstate pipelines, the ET Fuel System is strategically located near high-growth production areas and provides access to the Waha Hub near Midland, Texas, the Katy Hub near Houston, Texas and the Carthage Hub in east Texas, the three major natural gas trading centers in Texas. The ET Fuel System has total system throughput capacity of approximately 3.3 Bcf/d of natural gas and total working storage capacity of 12.4 Bcf of natural gas.

The ET Fuel System also operates our Bethel natural gas storage facility, with a working capacity of 6.4 Bcf, an average withdrawal capacity of 300 MMcf/d and an injection capacity of 75 MMcf/d, and our Bryson natural gas storage facility, with a working capacity of 6.0 Bcf, an average withdrawal capacity of 120 MMcf/d and an average injection capacity of 96 MMcf/d. Included in the ET Fuel System is a significant portion of our recently completed Cleburne to Carthage pipeline that connects our North Texas pipeline (NTP), a part of our ET Fuel System, our pipelines in the Barnett Shale region, and our Bethel storage facility to our Texoma pipeline in East Texas.

In addition, the ET Fuel System is connected with our Godley plant. This gives us the ability to bypass the plant when processing margins are unfavorable by blending the un-treated natural gas from the North Texas System with natural gas on the ET Fuel System while continuing to meet pipeline quality specifications.

The Oasis pipeline, a 583-mile natural gas pipeline that directly connects the Waha Hub to the Katy Hub. The Oasis pipeline is primarily a 36-inch diameter natural gas pipeline. It has bi-directional capability with approximately 1.2 Bcf/d of throughput capacity moving west-to-east and greater than 750 MMcf/d of throughput capacity moving east-to-west. The Oasis pipeline has many interconnections with other pipelines, power plants, processing facilities, municipalities and producers.

The Oasis pipeline is integrated with our Southeast Texas System and is an important component to maximizing our Southeast Texas System s profitability. The Oasis pipeline enhances the Southeast Texas System by:

- providing us with the ability to bypass the La Grange processing plant when processing margins are unfavorable;
- providing access for natural gas on the Southeast Texas System to other third party supply and market points and interconnecting pipelines; and
- allowing us to bypass our treating facilities on the Southeast Texas System and blend untreated natural gas from the Southeast Texas System with gas on the Oasis pipeline while continuing to meet pipeline quality specifications.

The HPL System is comprised of approximately 4,400 miles of intrastate natural gas pipeline with an aggregate capacity of 4.4 Bcf/d, six treating facilities with aggregate capacity of 280 MMcf/d, the underground Bammel storage reservoir and related transportation assets. The system has access to multiple sources of historically significant natural gas supply reserves from south Texas, the Gulf Coast of Texas, east Texas and the western Gulf of Mexico, and is directly connected to major gas distribution, electric and industrial load centers in Houston, Corpus Christi, Texas City and other cities located along the Gulf Coast of Texas. The HPL System also includes 32 miles of the Cleburne to Carthage pipeline from our Texoma pipeline interconnect to the Carthage Hub. The HPL System is well situated to gather gas in many of the major gas producing areas in

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Texas and has a particularly strong presence in the key Houston Ship Channel and Katy Hub markets, which significantly contributes to our overall ability to play an important role in the Texas natural gas markets. The HPL System is also well positioned to capitalize upon off-system opportunities due to its numerous interconnections with other pipeline systems, its direct access to multiple market hubs at Katy, the Houston Ship Channel and Agua Dulce, and our operation of the Bammel storage facility.

The Bammel storage facility has a total working gas capacity of approximately 62 Bcf and has a peak withdrawal rate of 1.3 Bcf/d. The field also has considerable flexibility during injection periods in that the HPL System has engineered an injection well configuration to provide for a 0.6 Bcf/d peak injection rate. The Bammel storage facility is strategically located near the Houston Ship Channel market area and the Katy Hub and is ideally suited to provide a physical backup for on-system and off-system customers.

On October 9, 2007, we announced our plan to expand our Cleburne to Carthage pipeline from the Texoma pipeline interconnect to the Carthage Hub (the Carthage Loop), adding an additional 500 MMcf/d of capacity to the Carthage Hub. The Carthage Loop is expected to be in service by the third calendar quarter of 2008.

The East Texas pipeline is a 168-mile natural gas pipeline that connects three treating facilities, one of which we own, with our Southeast Texas System. This pipeline was the first phase of a multi-phased project that increased service to producers in East and North Central Texas and provided access to the Katy Hub. The East Texas pipeline expansion had an initial capacity of over 400 MMcf/d which increased to the current capacity of 675 MMcf/d with the addition of the Grimes County Compressor Station. Over 500 MMcf/d of pipeline capacity is contracted under long-term agreements.

On October 9, 2007, we announced an expansion (the Katy expansion) of our East Texas pipeline with the installation of 56 miles of 36-inch pipeline and the addition of 20,000 horsepower of compression. The Katy expansion will increase the capacity on the East Texas pipeline from approximately 700 MMcf/d to more than 1.1 Bcf/d and is expected to be in service by the third calendar quarter of 2008.

Interstate Transportation Operations

Our interstate transportation segment accounted for approximately 12% of our total consolidated operating income for the year ended August 31, 2007. The results from our interstate transportation segment are primarily derived from the fees earned from natural gas transportation services and operational gas sales. Our interstate transportation operation began in fiscal 2007 with the acquisition of the Transwestern pipeline.

Our interstate transportation segment consists of the following:

The Transwestern pipeline, an open-access natural gas interstate pipeline extending approximately 2,400 miles from the gas producing regions of West Texas, eastern and northwest New Mexico, and southern Colorado primarily to pipeline interconnects off the east end of its system and to pipeline interconnects at the California border. The Transwestern pipeline has access to three significant gas basins: the Permian Basin in West Texas and eastern New Mexico; the San Juan Basin in northwest New Mexico and southern Colorado; and the Anadarko Basin in the Texas and Oklahoma panhandle. Natural gas sources from the San Juan Basin and surrounding producing areas can be delivered eastward to Texas intrastate and mid-continent connecting pipelines and natural gas market hubs as well as westward to markets like Arizona, Nevada and California. Transwestern s customers include local distribution companies, producers, marketers, electric power generators and industrial end-users. Transwestern transports natural gas in interstate commerce. As a result, Transwestern qualifies as a natural gas company under the Natural Gas Act and is subject to the regulatory jurisdiction of FERC, which regulates our interstate natural gas pipeline interests (see The Midstream and Transportation and Storage Segments Regulation). The operating results for Transwestern are included in our results on a consolidated basis as of the acquisition date (December 1, 2006).

During fiscal year 2007, we initiated the Phoenix project, consisting of 260 miles of 42-inch and 36-inch pipeline lateral, with a throughput capacity of 500 MMcf/d, connecting the Phoenix area to Transwestern s existing mainline at Ash Fork, Arizona and approximately 25 miles of 36-inch pipeline looping of Transwestern s existing San Juan lateral, adding 375 MMcf/d of capacity. Transwestern filed with the Federal Energy Regulatory Commission (FERC) for a certificate of public convenience and necessity on September 15, 2006 in Docket No. CP06-459. The final Environmental Impact Statement was issued by FERC on September 21, 2007. A final FERC certificate is expected in fall 2007, with construction beginning immediately thereafter. The project is expected to be partially in-service in the third calendar quarter of 2008 and completely in-service in the fourth calendar quarter of 2008.

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A joint development with Kinder Morgan Energy Partners, L.P. for our 50% interest in MEP, an approximately 500-mile interstate natural gas pipeline scheduled to be in service during the second calendar quarter of 2009, that will originate near Bennington, Oklahoma, be routed through Perryville, Louisiana, and terminate at an interconnect with Transco s interstate natural gas pipeline in Butler, Alabama, that transports natural gas to the significant natural gas markets in the northeast portion of the United States. As of and for the year ended, August 31, 2007, the activity related to MEP was not material to our consolidated results of operations, financial position or cash flows.

Retail Propane Operations

Through HOLP and Titan, we are one of the three largest retail propane marketers in the United States, based on gallons sold. We serve more than one million customers from approximately 440 customer service locations in approximately 40 states. Our propane operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. Our propane business has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth.

Our retail propane operations accounted for approximately 15% of our total consolidated operating income for the year ended August 31, 2007. The retail propane segment is a margin-based business in which gross profits depend on the excess of sales price over propane supply cost. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which we have no control. We have generally been successful in maintaining retail gross margins on an annual basis despite changes in the wholesale cost of propane, but there is no assurance that we will always be able to pass on product cost increases fully, particularly when product costs rise rapidly. Consequently, our profitability will be sensitive to changes in wholesale propane prices.

Our propane business is largely seasonal and dependent upon weather conditions in our service areas. Historically, approximately two-thirds of our retail propane volume and substantially all of our propane-related operating income, is attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income in the propane segment during the period from October through March of each year, and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Cash flow from operations is generally greatest during our second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Sales to commercial and industrial customers are much less weather sensitive.

A substantial portion of our propane is used in the heating-sensitive residential and commercial markets causing the temperatures in our areas of operations, particularly during the six-month peak-heating season, to have a significant effect on the financial performance of our propane operations. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use.

The retail propane segment s gross profit margins are not only affected by weather patterns, but also vary according to customer mix. Sales to residential customers generate higher margins than sales to certain other customer groups, such as commercial or agricultural customers. In addition, propane gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect propane gross profit without necessarily affecting total revenues.

Business Strategy and Competitive Strengths

Our business strategy is to increase Unitholder distributions and the value of our Common Units. We believe we have engaged, and will continue to engage, in a well-balanced plan for growth through acquisitions, internally generated expansion, and measures aimed at increasing the profitability of our existing assets.

We intend to continue to operate as a diversified, growth-oriented master limited partnership with a focus on increasing the amount of cash available for distribution on each Common Unit. We believe that by pursuing independent operating and growth strategies for our natural gas operations and retail propane business, we will be best positioned to achieve our objectives.

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We expect that acquisitions in natural gas operations will be the primary focus of our acquisition strategy going forward as evidenced by our acquisition of the Transwestern pipeline and Canyon Gathering System, although we will also continue to pursue complementary propane acquisitions as evidenced by our acquisition of Titan in June 2006. We also anticipate that our natural gas operations will provide internal growth projects of greater scale compared to those available in our propane business as demonstrated by our Cleburne to Carthage pipeline, the Phoenix project and other recently announced projects.

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

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

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

Natural Gas Operations Business Strategies

Enhance profitability of existing assets. We intend to increase the profitability of our existing asset base by adding new volumes of natural gas under long-term producer commitments, undertaking additional initiatives to enhance utilization and reducing costs by improving operations.

Engage in construction and expansion opportunities. We intend to leverage our existing infrastructure and customer relationships by constructing and expanding systems to meet new or increased demand for midstream and transportation services. These projects include those discussed above and include the construction of the Cleburne to Carthage pipeline, the Phoenix project, the expansion of the processing capacity at our Godley plant, and our Southeast Bossier pipeline connecting the Barnett Shale to our Texoma pipeline. We expect that these expansions will lead to additional growth opportunities in this area.

Increase cash flow from fee-based businesses. Excluding results from our marketing activities, the portion of our gross margin in our natural gas operations attributable to fee-based business has continued to increase. We charge fees for providing midstream services, including gathering, compressing, treating, processing and transmitting natural gas for producers. These fee-based services are dependent on throughput volume and are typically less affected by short-term changes in commodity prices. We intend to seek to increase the percentage of our midstream business conducted with third parties under fee-based arrangements in order to reduce our exposure to changes in the prices of natural gas and NGLs.

Growth through acquisitions. We intend to continue to make strategic acquisitions of midstream, transportation and storage assets in our current areas of operation that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion of our existing and acquired assets. As demonstrated by our acquisitions of the Transwestern pipeline and the Canyon Gathering System, we will also pursue midstream, transportation and storage asset acquisition opportunities in other regions of the U.S. with significant natural gas reserves and high levels of drilling activity, with growing demand for natural gas or that otherwise provide the opportunity to provide our customers with increased flexibility to transport natural gas from additional supply basins and additional markets.

Natural Gas Operations Business Strengths

Our assets provide marketing flexibility through our access to numerous markets and customers. The combination of our Oasis pipeline and our Southeast Texas System provides our customers direct access to the Waha and Katy Hubs and to virtually all other market areas in the United States via interconnections with major intrastate and interstate natural gas pipelines. Furthermore, our Oasis pipeline is tied directly or indirectly to a number of major power generation facilities in Texas as well as several industrial and utility end-users. With the acquisition of the ET Fuel

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System in June 2004, the HPL System acquisition in January 2005, and the completion of the East Texas pipeline, we have also increased our access to additional power plants, industrial users, municipalities, and co-operatives, and the added storage facilities add flexibility for fuel management services. The completion of the Cleburne to Carthage pipeline and other related projects provides producers with firm capacity out of the Barnett Shale and other major producing areas to all major market hubs in Texas and numerous interstate pipelines. We also provide producers with additional firm access to west coast markets with the acquisition of the Transwestern pipeline.

We have a significant market presence in each of our operating areas. We have a significant market presence in each of our operating areas, which are located in major natural gas producing regions of the United States such as the Barnett Shale. We expect the acquisition of the Transwestern pipeline will provide us with market presence in other prolific gas-producing regions in the western United States. We also expect the acquisition of the Canyon Gathering System will provide us with market presence in the Piceance-Uinta Basins in Colorado and Utah.

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

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

The HPL System enables us to engage in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. The Bammel natural gas storage facility, acquired when we purchased the HPL System, has a total working gas capacity of approximately 62 Bcf. The reservoir has a peak withdrawal rate of 1.3 Bcf/d and also has considerable flexibility during injection periods in that the HPL System has engineered an injection well configuration to provide for a 600 MMcf/d peak injection rate. Therefore, we are able to purchase physical natural gas and then sell financial contracts at a price sufficient to cover our carrying costs and provide for a gross profit margin. In addition, the Bammel natural gas storage facility is strategically located near the Houston Ship Channel market area and the Katy Hub and is ideally suited to provide a physical backup for on-system and off-system customers.

Propane Business Strategies

Pursue internal growth opportunities. In addition to pursuing expansion through acquisitions, we have aggressively focused on high return internal growth opportunities at our existing customer service locations. We believe that by concentrating our operations in areas experiencing higher-than-average population growth, we are well positioned to achieve internal growth by adding new customers.

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

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

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Propane Business Strengths

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

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

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

Natural Gas Operations Segments

Industry Overview

The midstream natural gas industry is the link between the exploration and production of natural gas and the delivery of its components to end-use markets. The midstream industry consists of natural gas gathering, compression, treating, processing and transportation and NGL fractionation and transportation, and is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas producing wells.

Natural gas has widely varying quality and composition, depending on the field, the formation or the reservoir from which it is produced. The principal constituents of natural gas are methane and ethane, though most natural gas also contains varying amounts of heavier components, such as propane, butane and natural gasoline that may be removed by a number of processing methods. Most raw materials produced at the wellhead are not suitable for long-haul pipeline transportation or commercial use and must be compressed, transported via pipeline to a central processing facility, and then processed to remove the heavier hydrocarbon components and other contaminants that would interfere with pipeline transportation or the end use of the gas.

Demand for natural gas. Natural gas continues to be a critical component of energy consumption in the United States. According to the Energy Information Administration, or the EIA, in its 2007 annual outlook, total domestic consumption of natural gas is expected to increase from an estimated 22.0 Tcf consumed in 2005 to 26.1 Tcf in 2030. During the five-year period ended December 31, 2006, the United States has on average consumed approximately 22.3 Tcf per year, with average domestic production of approximately 23.8 Tcf per year during the same period. The industrial and electricity generation sectors currently account for the largest usage of natural gas in the United States.

Natural gas gathering. The natural gas gathering process begins with the drilling of wells into gas bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems generally consist of a network of small diameter pipelines and, if necessary, compression systems that collect natural gas from points near producing wells and transport it to larger pipelines for further transportation.

Natural gas compression. Gathering systems are operated at design pressures that will maximize the total throughput from all connected wells. Specifically, lower pressure gathering systems allow wells, which produce at progressively lower field pressures as they age, to remain connected to gathering systems and to continue to produce for longer periods of time. As the pressure of a well declines, it becomes increasingly more difficult to deliver the remaining production in the ground against a higher pressure that exists in the connecting gathering system. Field compression is typically used to lower the pressure of a gathering system. If field compression is not installed, then the remaining production in the ground will not be produced because it cannot overcome the higher gathering system pressure. In contrast, if field compression is installed, then a well can continue delivering production that otherwise would not be produced.

Natural gas treating. Natural gas has a varied composition depending on the field, the formation and the reservoir from

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which it is produced. Natural gas from certain formations is higher in carbon dioxide, hydrogen sulfide or certain other contaminants. Treating plants remove carbon dioxide and hydrogen sulfide from natural gas to ensure that it meets pipeline quality specifications.

Natural gas processing. Some natural gas produced by a well does not meet the pipeline quality specifications established by downstream pipelines or is not suitable for commercial use and must be processed to remove the mixed NGL stream. In addition, some natural gas produced by a well, while not required to be processed, can be processed to take advantage of favorable processing margins. Natural gas processing involves the separation of natural gas into pipeline quality natural gas, or residue gas, and a mixed NGL stream.

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

Competition

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

We face competition with respect to retaining and obtaining significant natural gas supplies under terms favorable to us for the gathering, treating and marketing portions of our business. Our competitors include major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport and market natural gas. Many of our competitors, such as major oil and gas and pipeline companies, have capital resources and control supplies of natural gas substantially greater than ours.

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

Credit Risk and Customers

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

During the year ended August 31, 2007, none of our customers individually accounted for more than 10% of our midstream, intrastate transportation and storage and interstate segment revenues.

Regulation

Regulation by FERC of Interstate Natural Gas Pipelines. Under the Natural Gas Act (NGA), FERC generally regulates the transportation of natural gas in interstate commerce. For FERC regulatory purposes, transportation service includes storage service. The Transwestern pipeline transports natural gas in interstate commerce and thus qualifies as a natural gas company under the Natural Gas Act and is subject to the regulatory jurisdiction of FERC. In general, FERC has authority over natural gas companies that provide natural gas pipeline transportation services in interstate commerce and its authority to regulate those services includes:

- rate structures;
- rates of return on equity;

recovery of costs;

the services that our regulated assets are permitted to perform;

the acquisition, construction and disposition of assets; and

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to an extent, the level of competition in that regulated industry.

Under the Natural Gas Act, FERC has authority to regulate natural gas companies that provide natural gas pipeline transportation services in interstate commerce. Its authority to regulate those services includes the rates charged for the services, terms and conditions of service, certification and construction of new facilities, the extension or abandonment of services and facilities, the maintenance of accounts and records, the acquisition and disposition of facilities, the initiation and discontinuation of services, and various other matters. Natural gas companies may not charge rates that have not been determined to be just and reasonable by FERC. In addition, FERC prohibits natural gas companies from unduly preferring or unreasonably discriminating against any person with respect to pipeline rates or terms and conditions of service.

On September 29, 2006, Transwestern filed revised tariff sheets under section 4(e) of the Natural Gas Act (NGA) proposing a general rate increase to be effective on November 1, 2006. On March 9, 2007, Transwestern filed with the FERC its Stipulation and Agreement of Settlement (Stipulation and Agreement) which provides for (i) revised base tariff rates, (ii) the amortization of certain costs, including the Enron Cash Balance Plan, regulatory commission expense, post retirement benefits, the accumulated reserve adjustment regulatory asset, deferred income taxes, and certain non-PCB environmental costs, and (iii) a depreciation rate of 1.20 percent for all transmission plant facilities. On April 27, 2007, the FERC approved the Stipulation and Agreement with an effective date of April 1, 2007. Transwestern s tariff rates and fuel charges are now final until October 2011, the time stipulated in the settlement for the commencement of a new rate case.

The rates, terms and conditions of service provided by natural gas companies are required to be on file with FERC in FERC-approved tariffs. Pursuant to FERC s jurisdiction over rates, existing rates may be challenged by complaint and proposed rate increases may be challenged by protest. We cannot assure you that FERC will continue to pursue its approach of pro-competitive policies as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity, transportation and storage facilities. Any successful complaint or protest against Transwestern s FERC-approved rates could have a prospective impact on our revenues associated with providing transmission services on Transwestern s pipelines.

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

Intrastate Pipeline Regulation. Our intrastate natural gas pipeline gathering and operations generally are not subject to rate regulation by FERC under the NGA; however, FERC s regulation influences certain aspects of our business and the market for our products. To the extent that our intrastate pipeline systems transport natural gas in interstate commerce, the rates, terms and conditions of such transportation service are subject to FERC jurisdiction under Section 311 of the Natural Gas Policy Act (NGPA), which regulates, among other things, the provision of transportation services by an intrastate natural gas pipeline on behalf of a local distribution company or an interstate natural gas pipeline. The rates, terms and conditions of some transportation and storage services provided on the Oasis pipeline, HPL System, East Texas pipeline and ET Fuel System are subject to FERC regulation pursuant to Section 311 of the NGPA. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest, and the terms and conditions of service set forth in the pipeline s statement of operating conditions are subject to FERC review and approval. Should FERC determine not to authorize rates equal to or greater than our currently approved Section 311 rates, our business may be adversely affected. Failure to observe the service limitations applicable to transportation and storage services under Section 311, failure to comply with the rates approved by FERC for Section 311 service, and failure to comply with the terms and conditions of service established in the pipeline s FERC approved statement of operating conditions could result in an alteration of jurisdictional status, and/or the imposition of administrative, civil and criminal remedies.

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

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Sales of Natural Gas. Sales for resale of natural gas in interstate commerce made by intrastate pipelines or their affiliates are subject to FERC regulation unless the gas is produced by the pipeline or affiliate. Under current federal rules, however, the price at which we sell natural gas currently is not regulated, insofar as the interstate market is concerned and, for the most part, is not subject to state regulation. Effective as of January 12, 2004, the FERC s rules require pipelines (including intrastate pipelines) and their affiliates who sell gas in interstate commerce subject to FERC s jurisdiction to adhere to a code of conduct prohibiting market manipulation and transactions that have no legitimate business purpose or result in prices not reflective of legitimate forces of supply and demand. Those who violate such code of conduct may be subject to suspension or loss of authorization to perform such sales, disgorgement of unjust profits, or other appropriate non-monetary remedies imposed by FERC. FERC denied rehearing of these rules on May 19, 2004, but the rules are still subject to possible court appeals. We cannot predict the outcome of these further proceedings, but do not believe we will be affected materially differently from other intrastate gas pipelines and their affiliates. In addition, our sales of natural gas are affected by the availability, terms and cost of pipeline transportation. As noted above, the price and terms of access to pipeline transportation are subject to extensive federal and state regulation. FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to FERC s jurisdiction. These initiatives also may affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry and these initiatives generally reflect more light-handed regulation. We cannot predict the ultimate impact of these regulatory changes to our natural gas marketing operations, and we note that some of FERC s more recent proposals may adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. We do not believe that we will be affected by any such FERC action materially differently than other natural gas marketers with whom we compete.

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

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

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

Natural gas gathering may receive greater regulatory scrutiny at both the state and Federal levels and a number of such companies have transferred gathering facilities to unregulated affiliates. For example, the TRRC has approved changes to its regulations governing transportation and gathering services performed by intrastate pipelines and gatherers, which prohibit such entities from unduly discriminating in favor of their affiliates. Many of the producing states have adopted some form of complaint-based regulation that generally allows natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination allegations. Our gathering operations could be adversely affected should they be subject in the future to the application

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of additional or different state or federal regulation of rates and services. Our gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement and management of gathering facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. We cannot predict what effect, if any, such changes might have on our operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

Pipeline Safety. The states in which we conduct operations administer federal pipeline safety standards under the Natural Gas Pipeline Safety Act of 1968, as amended (the NGPSA), which requires certain pipelines to comply with safety standards in constructing and operating the pipelines and subjects the pipelines to regular inspections. Failure to comply with the NGPSA may result in the imposition of administrative, civil and criminal remedies. The rural gathering exemption under the NGPSA presently exempts substantial portions of our gathering facilities from jurisdiction under that statute. The portions of our facilities that are exempt include those portions located outside of cities, towns or any area designated as residential or commercial, such as a subdivision or shopping center. The rural gathering exemption, however, may be restricted in the future, and it does not apply to our intrastate natural gas pipelines.

Retail Propane Segment

Industry Overview

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

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

Competition

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. We compete for customers against suppliers of electricity, natural gas and fuel oil. Competition from alternative energy sources has been increasing as a result of reduced utility regulation. Except for certain industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a significantly less expensive source of energy than propane. The gradual expansion of natural gas distribution systems in the United States has resulted in the availability of natural gas in many areas that previously depended upon propane. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, we believe that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Even though propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to another. According to industry publications, propane accounts for 6 $^1/2$ % of household energy consumption in the United States.

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

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

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Products, Services and Marketing

We distribute propane through a nationwide retail distribution network consisting of approximately 440 customer service locations in approximately 40 states, concentrated in large part in the western, upper midwestern, northeastern and southeastern regions of the United States.

Typically, customer service locations are found in suburban and rural areas where natural gas is not readily available. Such locations generally consist of a one to two acre parcel of land, an office, a small warehouse and service facility, a dispenser and one or more 18,000 to 30,000 gallon storage tanks. Propane is generally transported from refineries, pipeline terminals, leased storage facilities and coastal terminals by rail or truck transports to our customer service locations where it is unloaded into storage tanks. In order to make a retail delivery of propane to a customer, a bobtail truck, which generally holds 2,500 to 3,000 gallons of propane, is loaded with propane from the storage tank. Propane is then delivered to the customer by the bobtail truck and pumped into a stationary storage tank on the customer s premises. We also deliver propane to retail customers in portable cylinders. We also deliver propane to certain other bulk end-users of propane in tractor-trailer transports, which typically have an average capacity of approximately 10,500 gallons. End-users receiving transport deliveries include industrial customers, large-scale heating accounts, mining operations and large agricultural accounts.

We encourage our customers whose propane needs are temperature sensitive to implement a regular delivery schedule. Many of our residential customers receive their propane supply pursuant to an automatic delivery system, which eliminates the customer s need to make an affirmative purchase decision and allows for more efficient route scheduling. We also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances.

Of the retail gallons we sold, approximately 57% were to residential customers, 30% were to industrial, commercial and agricultural customers, and 13% were to other retail users. Sales to residential customers in the fiscal year ended August 31, 2007 accounted for 57% of total retail gallons sold but accounted for approximately 69% of our gross profit from propane sales. Residential sales have a greater profit margin and a more stable customer base than the other markets we serve. Industrial, commercial and agricultural sales accounted for 23% of our gross profit from propane sales for the fiscal year ended August 31, 2007, with all other retail users accounting for 8%. No single customer accounts for 10% or more of consolidated revenues.

Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which we operate can significantly affect the total volumes of propane that we sell and the margins realized thereon and, consequently, our results of operations. We believe that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

Propane Supply and Storage

Our supplies of propane historically have been readily available from our supply sources. We purchase from over 50 energy companies and natural gas processors at numerous supply points located in the United States and Canada. In the fiscal year ended August 31, 2007, Targa Liquids (Targa) and Enterprise Products Operating L.P. (Enterprise) provided approximately 23.0% and 22.0% of our combined total propane supply, respectively. Enterprise is a subsidiary of Enterprise GP Holdings, L.P. (Enterprise GP), an entity that owns approximately 17.6% of the outstanding ETE Common Units and a 34.9% non-controlling equity interest in LE GP and is therefore considered to be an affiliate of us. Titan purchases substantially all of its propane from Enterprise pursuant to an agreement that expires in 2010. Additionally, HOLP has a monthly storage contract with TEPPCO Partners, L.P. (an affiliate of Enterprise).

In addition, M-P Energy Partnership (M-P Energy), a Canadian partnership in which our wholly-owned subsidiary, M.P. Oils, Ltd. (MP Oils), owned through August 31, 2007 a 60% interest, procured 20.7% of our combined total propane supply during the fiscal year ended August 31, 2007. M-P Energy buys and sells propane for its own account and supplies propane to us for our northern United States operations. We sold our interest in MP Oils in October 2007. We have executed a seven-year propane purchase agreement in connection with the sale of MP Oils (see Note 8 to our consolidated financial statements).

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We believe that if supplies from Targa or Enterprise were interrupted we would be able to secure adequate propane supplies from other sources without a material disruption of our operations. Aside from Targa, Enterprise, and the supply procured by M-P Energy, no single supplier provided more than 10% of our total domestic propane supply during the fiscal year ended August 31, 2007. Although we cannot assure you that supplies of propane will be readily available in the future, we believe that our diversification of suppliers will enable us to purchase all of our supply needs at market prices without a material disruption of our operations if supplies are interrupted from any of our existing sources. However, increased demand for propane in periods of severe cold weather, or otherwise, could cause future propane supply interruptions or significant volatility in the price of propane.

Except for Titan s supply agreement and the new agreement with MP Oils, we typically enter into one-year supply agreements. The percentage of contract purchases may vary from year to year. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or at the current prices established at major delivery or storage points, and some contracts include a pricing formula that typically is based on these market prices. We generally have attempted to reduce price risk by purchasing propane on a short-term basis. We have on occasion purchased for future resale significant volumes of propane for storage during periods of low demand, which generally occur during the summer months, at the then current market price, both at our customer service locations and in major storage facilities. We receive our supply of propane predominately through railroad tank cars and common carrier transport.

We lease space in larger storage facilities in Michigan, Arizona, New Mexico and Texas, and smaller storage facilities in other locations, and have the opportunity to use storage facilities in additional locations when we pre-buy product from sources having such facilities. We believe that we have adequate third party storage to take advantage of supply purchasing advantages as they may occur from time to time. Access to storage facilities allows us to buy and store large quantities of propane during periods of low demand, which generally occur during the summer months, or at favorable prices, thereby helping to ensure a more secure supply of propane during periods of intense demand or price instability.

Pricing Policy

Pricing policy is an essential element in the marketing of propane. We rely on regional management to set prices based on prevailing market conditions and product cost, as well as local management input. All regional managers are advised regularly of any changes in the posted price of each customer service location s propane suppliers. In most situations, we believe that our pricing methods will permit us to respond to changes in supply costs in a manner that protects our gross margins and customer base; to the extent such protection is possible. In some cases, however, our ability to respond quickly to cost increases could occasionally cause our retail prices to rise more rapidly than those of our competitors, possibly resulting in a loss of customers.

Government Regulation and Environmental Matters

The operation of pipelines, plants and other facilities for gathering, compressing, treating, processing, or transporting natural gas, natural gas liquids and other products is subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations can impair our business activities that affect the environment in many ways, such as:

- restricting the way we can release materials or waste products into the air, water, or soils;

- limiting or prohibiting construction activities in sensitive areas such as wetlands or areas of endangered species habitat, or otherwise constraining how or when construction is conducted;

- requiring remedial action to mitigate pollution from former operations, or requiring plans and activities to prevent pollution from ongoing operations; and

- imposing substantial liabilities on us for pollution resulting from our operations, including, for example, potentially enjoining the operations of facilities if it were determined that they were not in compliance with permit terms.

Costs of planning, designing, constructing and operating pipelines, plants and other facilities must incorporate compliance with environmental laws and regulations and safety standards. We have implemented environmental programs and policies designed to avoid potential liability and cost under applicable environmental laws and regulations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, the issuance of injunctions and the filing of federally authorized citizen suits.

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The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus, any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, risks of process upsets, accidental releases or spills are associated with our operations, and we cannot assure you that we will not incur significant costs and liabilities if such upsets, releases, or spills were to occur. In the event of future increases in costs, we may be unable to pass on those increases to our customers. While we believe that we are in substantial compliance with existing environmental laws and regulations and that continued compliance with current requirements would not have a material adverse effect on us, there is no assurance that this trend will continue in the future.

The Comprehensive Environmental Response, Compensation and Liability Act, as amended, also known as CERCLA or Superfund, and comparable state laws, impose liability without regard to fault or the legality of the original conduct on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment, including those arising out of historical operations conducted by predecessors. Under CERCLA, these responsible persons may be subject to joint and several, strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. Although petroleum is excluded from the definition of hazardous substance under CERCLA, we will generate materials in the course of our operations that may be regulated as hazardous substances. We also may incur liability under the Resource Conservation and Recovery Act, also known as RCRA, which imposes requirements related to the management and disposal of solid and hazardous wastes. While there exists an exclusion from the definition of hazardous wastes for drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas or geothermal energy, in the course of our operations, we may generate unrecovered petroleum product wastes as well as ordinary industrial wastes such as paint wastes, waste solvents, and waste compressor oils that may be regulated as hazardous or solid wastes.

We currently own or lease, and have in the past owned or leased, numerous properties that for many years have been used for the measurement, gathering, field compression and processing of natural gas and NGLs. Although we used operating and disposal practices that were standard in the industry at the time, petroleum hydrocarbons or wastes may have been disposed of or released on or under the properties owned or leased by us, or on or under other locations where such wastes have been taken for disposal. In addition, some of these properties have been operated by third parties whose treatment and disposal or release of petroleum hydrocarbons and wastes was not under our control. These properties and the materials disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial activities to prevent future contamination. A predecessor company acquired by us in July 2001 had previously received and responded to a request for information from the U.S. Environmental Protection Agency or EPA regarding its potential contribution to widespread groundwater contamination in San Bernardino, California, known as the Newmark Groundwater Contamination Superfund site. We have not received any follow-up correspondence from EPA on the matter since our acquisition of the predecessor company in 2001. In addition, through our acquisitions of ongoing businesses, we are currently involved in several remediation projects that have cleanup costs and related liabilities. As of August 31, 2007 an accrual of $13.5 million was recorded in our consolidated balance sheet to cover estimated environmental liabilities including certain matters assumed in connection with our acquisition of the HPL System. We have also recorded a receivable of $0.4 million to account for the predecessor owner s share of certain environmental liabilities of ETC OLP. In addition, we recorded an accrual of $3.0 million in connection with our acquisition of Titan for the potential environmental liabilities for three sites that were formerly owned by Titan or its predecessors.

Transwestern conducts soil and groundwater remediation at a number of its facilities. Some of the clean up activities include remediation of several compressor sites on the Transwestern system for presence of polychlorinated biphenyls (PCBs) which are not eligible for recovery in rates. The total accrued future estimated cost of remediation activities expected to continue for several years is approximately $12.3 million. Transwestern received FERC approval for rate recovery of the portion of soil and groundwater remediation not related to PCBs effective April 1, 2007.

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Transwestern continues to incur certain costs related to PCBs that could migrate into customers facilities. Transwestern, as part of ongoing arrangements with customers, continues to incur costs associated with containing and removing the PCBs. Costs of these remedial activities totaled approximately $0.4 million for the period since acquisition. Future costs cannot be reasonably estimated because remediation activities are undertaken as claims are made by customers and former customers, and accordingly, no accrual has been established for these costs at August 31, 2007. However, such future costs are not expected to have a material impact on our financial position, results of operations or cash flows.

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants into state and federal waters. The discharge of pollutants into regulated waters is prohibited, except in accord with the terms of a permit issued by EPA or the state. Any unpermitted release of pollutants, including NGLs or condensates, from our systems or facilities could result in fines or penalties, as well as significant remedial obligations. We believe that we are in substantial compliance with the Clean Water Act. Environmental regulations were recently modified for United States Environmental Protection Agency s Spill Prevention, Control and Countermeasures (SPCC) program. We are currently reviewing the impact to our operations and expect to expend resources on tank integrity testing and any associated corrective actions as well as potential upgrades to containment structures. Costs associated with tank integrity testing and resulting corrective actions cannot be reasonably estimated at this time, but we believe such costs will not have a material adverse effect on our financial position, results of operations or cash flows.

The Clean Air Act, as amended, and comparable state laws restrict the emission of air pollutants from many sources, including processing plants and compressor stations. These laws and any implementing regulations may require us to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce air emissions, impose stringent air permit requirements, or utilize specific equipment or technologies to control emissions. Failure to comply with these laws and regulations could expose us to civil and criminal enforcement actions. We received a state-issued Pipeline Facilities air emissions permit on June 30, 2005 for our Prairie Lea Compressor Station in Caldwell County, Texas, which historically has been designated as a grandfathered facility and, thus, was excluded from state air emissions permitting requirements. We currently comply with the terms of this permit and associated regulations requiring specified reductions in nitrogen oxides or NOx emissions. During 2006 and 2007 we spent an estimated $3.0 million to modify the compressor engines at the facility. In addition, we have established agency-approved baseline monitoring of NOx emissions from our Katy Compressor Station in Harris County, Texas, which is in a non-attainment area for ozone. The NOx baseline has been established and we have a sufficient amount of NOx emission allowances that would allow the facility to continue at its current level of operation in the non-attainment area. These plans are subject to possible change however, as the non-attainment area is currently transitioning from a 1-hour ozone non-attainment area to an 8-hour ozone non-attainment area, which transition we expect will result in the adoption of further regulations that will perhaps change the extent to which NOx emissions reductions may be required.

Our pipeline operations are subject to regulation by the U.S. Department of Transportation (DOT) under the Pipeline Hazardous Materials Safety Administration (PHMSA), pursuant to which the PHMSA has established requirements relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. Moreover, the PHMSA, through the Office of Pipeline Safety, has promulgated a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as high consequence areas . Activities under these integrity management programs involve the performance of internal pipeline inspections, pressure testing, or other effective means to assess the integrity of these regulated pipeline segments, and the regulations require prompt action to address integrity issues raised by the assessment and analysis. Based on the results of our current pipeline integrity testing programs, we estimate that compliance with these federal regulations and analogous state pipeline integrity requirements for our existing transportation assets other than Transwestern pipeline will result in capital costs of $7.9 million during the period between the remainder of calendar year 2007 through 2008, as well as operating and maintenance costs of $13.1 million during that period. During this same time period, we estimate that we will incur pipeline integrity operating and on-going annual maintenance capital costs of $18.7 million with respect to our Transwestern pipeline. Through August 31, 2007, Transwestern did not incur any costs associated with the IMP Rule and has satisfied all of the requirements until 2010. Integrity testing and assessment of all of these assets will continue, and the potential exists that results of such testing and assessment could cause us to incur even greater capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of its pipelines.

We are subject to the requirements of the federal Occupational Safety and Health Act, also known as OSHA, and comparable state laws that regulate the protection of the health and safety of employees. In addition, OSHA s hazardous

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communication standard requires that information be maintained about hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with the OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. With respect to the transportation of propane by truck, we are subject to regulations governing the transportation of hazardous materials under the Federal Motor Carrier Safety Act, administered by the DOT. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We believe that the procedures currently in effect at all of our facilities for the handling, storage, and distribution of propane are consistent with industry standards and are in substantial compliance with applicable laws and regulations.

Employees

As of October 7, 2007, we employed 976 people to operate our natural gas operation segments. We employ 4,340 full-time employees to operate our propane segments. Of the propane employees, 64 are represented by labor unions. We believe that our relations with our employees are satisfactory. Historically, our propane operations hire seasonal workers to meet peak winter demands.

SEC Reporting

We electronically file certain documents with the SEC. We file annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K (as appropriate); along with any related amendments and supplements thereto. From time-to-time, we may also file registration and related statements pertaining to equity or debt offerings. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We provide electronic access to our periodic and current reports on our Internet website, www.energytransfer.com, free of charge. These reports are available on our website as soon as reasonably practicable after we electronically file such materials with the SEC.

ITEM 1A. RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the following risk factors included below, together with all of the other information included in, or incorporated by reference into, this report in evaluating an investment in our securities. If any of these risks were to occur, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our Common Units could decline and you could lose all or part of your investment.

Risks Inherent in an Investment in Us

Cash distributions are not guaranteed and may fluctuate with our performance and other external factors.

The amount of cash we can distribute to holders of our Common Units or other partnership securities depends upon the amount of cash we generate from our operations. The amount of cash we generate from our operations will fluctuate from quarter to quarter and will depend upon, among other things:

- the amount of natural gas transported through our transportation pipelines and gathering systems;

- the level of throughput in our processing and treating operations;

the fees we charge and the margins we realize for our gathering, treating, processing, storage and transportation services;

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- the price of natural gas;
- the relationship between natural gas and NGL prices;
- the weather in our operating areas;
- the cost to us of the propane we buy for resale and the prices we receive for our propane;
- the level of competition from other midstream companies, interstate pipeline companies, propane companies and other energy providers;
- the level of our operating costs;
- prevailing economic conditions; and
- the level of our hedging activities.

In addition, the actual amount of cash we will have available for distribution will also depend on other factors, such as:

- the level of capital expenditures we make;
- the level of costs related to litigation and regulatory compliance matters;
- the cost of acquisitions, if any;
- the levels of any margin calls that result from changes in commodity prices;
- our debt service requirements;
- fluctuations in our working capital needs;
- our ability to make working capital borrowings under our credit facilities to make distributions;
- our ability to access capital markets;

restrictions on distributions contained in our debt agreements; and

the amount, if any, of cash reserves established by our General Partner in its discretion for the proper conduct of our business.

Because of all these factors, we cannot guarantee that we will have sufficient available cash to pay a specific level of cash distributions to our Unitholders.

Furthermore, you should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record net losses and may not make cash distributions during periods when we record net income.

We may sell additional limited partner interests, diluting existing interests of Unitholders.

Our partnership agreement allows us to issue an unlimited number of additional limited partner interests, including securities senior to the Common Units, without the approval of our Unitholders. The issuance of additional Common Units or other equity securities will have the following effects:

the current proportionate ownership interest of our Unitholders in us will decrease;

the amount of cash available for distribution on each Common Unit or partnership security may decrease;

the relative voting strength of each previously outstanding Common Unit may be diminished; and

the market price of the Common Units or partnership securities may decline.

Future sales of our units or other limited partner interests in the public market could reduce the market price of Unitholders limited partner interests.

As of August 31, 2007, ETE (formerly La Grange Energy, L.P.), owned 62,500,797 Common Units. ETE owns our General Partner. If ETE were to sell and/or distribute its Common Units to the holders of its equity interests in the future, those holders may dispose of some or all of these units. The sale or disposition of a substantial portion of these units in the public markets could reduce the market price of our outstanding Common Units.

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Our increased debt level and debt agreements may limit our ability to make distributions to Unitholders and our future financial and operating flexibility.

As of August 31, 2007, we had approximately $3.7 billion of consolidated debt outstanding. Our level of indebtedness affects our operations in several ways, including, among other things:

- a significant portion of our cash flow from operations will be dedicated to the payment of principal and interest on outstanding debt and will not be available for other purposes, including payment of distributions;
- covenants contained in our existing debt arrangements require us to meet financial tests that may adversely affect our flexibility in planning for and reacting to changes in our business;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general partnership purposes may be limited;
- we may be at a competitive disadvantage relative to similar companies that have less debt;
- we may be more vulnerable to adverse economic and industry conditions as a result of our significant debt level; and
- failure to comply with the various restrictive and affirmative covenants of the credit agreements could negatively impact our ability and the ability of our subsidiaries to incur additional debt and our ability to pay our distributions. We are required to measure these financial tests and covenants quarterly and, as of August 31, 2007, we were in compliance with all financial requirements, tests, limitations, and covenants related to financial ratios under our existing credit agreements.

Increases in interest rates could materially adversely affect our business, results of operations, cash flows and financial condition.

In addition to our exposure to commodity prices, we have significant exposure to increases in interest rates. As of August 31, 2007, we had approximately $3.7 billion of consolidated debt, of which approximately $2.7 billion was at fixed interest rates and approximately $1.0 billion was at variable interest rates. We have entered interest rate swaps for a total notional amount of $125.0 million, resulting in a net amount of $875.0 million of variable-rate debt at August 31, 2007. We manage a portion of our interest rate exposures by utilizing interest rate swaps and similar arrangements. To the extent that we have debt with variable interest rates that is not hedged, our results of operations, cash flows and financial condition, could be materially adversely affected by significant increases in interest rates.

An increase in interest rates may also cause a corresponding decline in demand for equity investments, in general, and in particular for yield-based equity investments such as our Common Units. Any such reduction in demand for our Common Units resulting from other more attractive investment opportunities may cause the trading price of our Common Units to decline.

The credit and risk profile of our General Partner and its owners could adversely affect our credit ratings and profile.

The credit and business risk profiles of our General Partner or owners of our General Partner may be factors in credit evaluations of us as a master limited partnership. This is because the General Partner can exercise significant influence over our business activities, including our cash distribution and acquisition strategy and business risk profile. Another factor that may be considered is the financial condition of our General Partner and its owners, including the degree of their financial leverage and their dependence on cash flow from the partnership to service their indebtedness.

Entities controlling the owner of our General Partner have significant indebtedness outstanding and are dependent principally on the cash distributions from their general and limited partner equity interests in us to service such indebtedness. Any distributions by us to such entities will be made only after satisfying our then current obligations to our creditors. Although we have taken certain steps in our organizational structure, financial reporting and contractual relationships to reflect the separateness of us, ETP GP and ETP LLC from the entities that control ETP GP, our credit ratings and business risk profile could be adversely affected if the ratings and risk profiles of such entities were viewed as substantially lower or more risky than ours.

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The General Partner is not elected by the Unitholders and cannot be removed without its consent.

Unlike the holders of common stock in a corporation, Unitholders have only limited voting rights on matters affecting our business, and therefore limited ability to influence management s decisions regarding our business. Unitholders did not elect our General Partner and will have no right to elect our General Partner on an annual or other continuing basis. Although our General Partner has a fiduciary duty to manage us in a manner beneficial to Energy Transfer Partners, L.P. and the Unitholders, the directors of our General Partner and its General Partner, Energy Transfer Partners, L.L.C., have a fiduciary duty to manage the General Partner and its General Partner in a manner beneficial to the owners of those entities.

Furthermore, if the Unitholders are dissatisfied with the performance of our General Partner, they will have little ability to remove our General Partner. The General Partner generally may not be removed except upon the vote of the holders of 66 $^{2}/3$% of the outstanding units voting together as a single class, including units owned by the General Partner and its affiliates. As of August 31, 2007, ETE and its affiliates held approximately 46% of our outstanding units, with an approximately 1% of units held by our officers and directors. Consequently, it could be difficult to remove the General Partner without the consent of the General Partner and our affiliates.

Furthermore, Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the General Partner and its affiliates, cannot be voted on any matter.

The control of our General Partner may be transferred to a third party without Unitholder consent.

The General Partner may transfer its General Partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the Unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the general partner of our General Partner from transferring its general partner interest in our General Partner to a third party. Any new owner of the General Partner would be in a position to replace the officers of the General Partner with its own choices and to control the decisions taken by such officers.

Unitholders may be required to sell their units to the General Partner at an undesirable time or price.

If at any time less than 20% of the outstanding units of any class are held by persons other than the General Partner and its affiliates, the General Partner will have the right to acquire all, but not less than all, of those units at a price no less than their then-current market price. As a consequence, a Unitholder may be required to sell his Common Units at an undesirable time or price. The General Partner may assign this purchase right to any of its affiliates or to us.

The interruption of distributions to us from our operating subsidiaries and equity investees may affect our ability to satisfy our obligations and to make distributions to our partners.

We are a holding company with no business operations. Our only significant assets are the equity interests we own in our operating subsidiaries and equity investees. As a result, we depend upon the earnings and cash flow of our operating subsidiaries and equity investees and the distribution of that cash to us in order to meet our obligations and to allow us to make distributions to our partners.

Cost reimbursements due to our General Partner may be substantial and may reduce our ability to pay the distributions to Unitholders.

Prior to making any distributions to our Unithholders, we will reimburse our General Partner for all expenses it has incurred on our behalf. In addition, our General Partner and its affiliates may provide us with services for which we will be charged reasonable fees as determined by the General Partner. The reimbursement of these expenses and the payment of these fees could adversely affect our ability to make distributions to the Unitholders. Our General Partner has sole discretion to determine the amount of these expenses and fees.

Unitholders may have liability to repay distributions.

Under certain circumstances Unitholders may have to repay us amounts wrongfully distributed to them. Under Delaware law, we may not make a distribution to you if the distribution causes our liabilities to exceed the fair value of our assets. Liabilities to partners on account of their partnership interests and non-recourse liabilities are not counted for purposes of determining whether a distribution is permitted. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated Delaware law, will be liable to

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the limited partnership for the distribution amount for three years from the distribution date. Under Delaware law, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of the assignor to make contributions to the partnership. However, such an assignee is not obligated for liabilities unknown to him at the time he or she became a limited partner if the liabilities could not be determined from the partnership agreement.

Risks Related to Conflicts of Interest

Our partnership agreement limits our General Partner s fiduciary duties to our Unitholders and restricts the remedies available to Unitholders for actions taken by our General Partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that waive or consent to conduct by our General Partner and its affiliates and which reduce the obligations to which our General Partner would otherwise be held by state-law fiduciary duty standards. The following is a summary of the material restrictions contained in our partnership agreement on the fiduciary duties owed by our General Partner to the limited partners. Our partnership agreement:

- permits our General Partner to make a number of decisions in its sole discretion. This entitles our General Partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;

- provides that our General Partner is entitled to make other decisions in its reasonable discretion ;

- generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of Unitholders must be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our General Partner may consider the interests of all parties involved, including its own. Unless our General Partner has acted in bad faith, the action taken by our General Partner shall not constitute a breach of its fiduciary duty; and

- provides that our General Partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our General Partner and those other persons acted in good faith.

In order to become a limited partner of our partnership, a common Unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

Some of our executive officers and directors face potential conflicts of interest in managing our business.

Certain of our executive officers and directors are also officers and/or directors of ETE. These relationships may create conflicts of interest regarding corporate opportunities and other matters. The resolution of any such conflicts may not always be in our or our Unitholders best interests. In addition, these overlapping executive officers and directors allocate their time among us and ETE. These officers and directors face potential conflicts regarding the allocation of their time, which may adversely affect our business, results of operations and financial condition.

The General Partner s absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our Unitholders.

Our partnership agreement requires the General Partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the partnership agreement permits the General Partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to Unitholders.

Our General Partner has conflicts of interest and limited fiduciary responsibilities, which may permit our General Partner to favor its own interests to the detriment of Unitholders.

As of August 31, 2007, ETE and its affiliates directly and indirectly owned an aggregate limited partner interest in us of approximately 46% and our officers and directors owned approximately 1% of the limited partner interests in us. Conflicts of interest could arise in the future as a result of relationships between our General Partner and its affiliates, on the one hand, and us, on the other hand. As a result of these conflicts our General Partner may favor its own interests and those of its affiliates over the interests of the Unitholders. The nature of these conflicts includes the following considerations:

Remedies available to Unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

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- Our General Partner is allowed to take into account the interests of parties in addition to us in resolving conflicts of interest, thereby limiting its fiduciary duties to the Unitholders.

- Our General Partner s affiliates are not prohibited from engaging in other businesses or activities, including those in direct competition with us.

- Our General Partner determines the amount and timing of our asset purchases and sales, capital expenditures, borrowings and reserves, each of which can affect the amount of cash that is distributed to Unitholders.

- Our General Partner determines whether to issue additional units or other equity securities of us.

- Our General Partner determines which costs are reimbursable by us.

- Our General Partner controls the enforcement of obligations owed to us by it.

- Our General Partner decides whether to retain separate counsel, accountants or others to perform services for us.

- Our General Partner is not restricted from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

- In some instances our General Partner may borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make incentive distributions.

The risk of competition with affiliates of our General Partner has increased.

Except as provided in our Partnership Agreement, affiliates of our General Partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. On May 7, 2007, Enterprise GP Holdings, L.P. acquired a 34.9% non-controlling equity interest in LE GP, L.L.C., ETE s General Partner. Enterprise GP Holdings, L.P. and its subsidiaries are a North American midstream energy business. As a result, there is greater risk that competition with affiliates of our General Partner could occur, which could adversely impact our results of operations and cash available for distributions.

Risks Related to our Business

The profitability of our midstream and intrastate transportation and storage operations are largely dependent upon natural gas commodity prices, price spreads between two or more physical locations and market demand for natural gas and NGLs, which are factors beyond our control and have been volatile.

Income from our midstream and intrastate transportation and storage operations are exposed to risks due to fluctuations in commodity prices. For a portion of the natural gas gathered at the North Texas System, Southeast Texas System and at our HPL System, we purchase natural gas from producers at the wellhead at a price that is at a discount to a specified index price and then gather and deliver the natural gas to pipelines where we typically resell the natural gas at the index price or gas daily average. Generally, the gross margins we realize under these discount-to-index arrangements decrease in periods of low natural gas prices because these gross margins are based on a percentage of the index price.

For a portion of the natural gas gathered and processed at the North Texas System and Southeast Texas System, we enter into percentage-of-proceeds arrangements, keep-whole arrangements, and processing fee agreements pursuant to which we agree to gather and process natural gas received from the producers. Under percentage-of-proceeds arrangements, we generally sell the residue gas and NGLs at market prices and remit to the producers an agreed upon percentage of the proceeds based on an index price. In other cases, instead of remitting cash payments to the producer, we deliver an agreed upon percentage of the residue gas and NGL volumes to the producer and sell the volumes we keep to third parties at market prices. Under these arrangements our revenues and gross margins decline when natural gas prices and NGL prices decrease. Accordingly, a decrease in the price of natural gas or NGLs could have an adverse effect on our

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results of operations. Under keep-whole arrangements, we generally sell the NGLs produced from our gathering and processing operations to third parties at market prices. Because the extraction of the NGLs from the natural gas during processing reduces the Btu content of the natural gas, we must either purchase natural gas at market prices for return to producers or make a cash payment to producers equal to the value of this natural gas. Under these arrangements, our revenues and gross margins decrease when the price of natural gas increases relative to the price of NGLs if we are not able to bypass our processing plants and sell the unprocessed natural gas. Under processing fee agreements, we process the gas for a fee. If recoveries are less than those guaranteed the producer, we may suffer a loss by having to supply liquids or its cash equivalent to keep the producer whole with regard to contractual recoveries.

In the past, the prices of natural gas and NGLs have been extremely volatile, and we expect this volatility to continue. For example, during our fiscal year ended August 31, 2007, the NYMEX settlement price for the prompt month contract ranged from a high of $8.87 per MMBtu to a low of $4.20 per MMBtu. A composite of the Mt. Belvieu average NGLs price based upon our average NGLs composition during our fiscal year ended August 31, 2007 ranged from a high of approximately $1.15 per gallon to a low of approximately $0.83 per gallon. Natural gas prices are subject to significant fluctuations, and we cannot assure you that natural gas prices will remain at the high levels recently experienced.

Our Oasis pipeline, East Texas pipeline, ET Fuel System and HPL System receive fees for transporting natural gas for our customers. Although a significant amount of the pipeline capacity of the East Texas pipeline and various pipeline segments of the ET Fuel System is committed under long-term fee-based contracts, the remaining capacity of our transportation pipelines is subject to fluctuation in demand based on the markets and prices for natural gas and NGLs, which factors may result in decisions by natural gas producers to reduce production of natural gas during periods of lower prices for natural gas and NGLs or may result in decisions by end users of natural gas and NGLs to reduce consumption of these fuels during periods of higher prices for these fuels. Our fuel retention fees are also directly impacted by changes in natural gas prices. Increases in natural gas prices tend to increase our fuel retention fees, and decreases in natural gas prices tend to decrease our fuel retention fees.

The markets and prices for natural gas and NGLs depend upon factors beyond our control. These factors include demand for oil, natural gas and NGLs, which fluctuate with changes in market and economic conditions, and other factors, including:

- the impact of weather on the demand for oil and natural gas;
- the level of domestic oil and natural gas production;
- the availability of imported oil and natural gas;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the price, availability and marketing of competitive fuels;
- the demand for electricity;
- the impact of energy conservation efforts; and

the extent of governmental regulation and taxation.

The use of derivative financial instruments could result in material financial losses by us.

From time to time, we have sought to limit a portion of the adverse effects resulting from changes in natural gas and other commodity prices and interest rates by using derivative financial instruments and other hedging mechanisms and by the activities we conduct in our trading operations. To the extent that we hedge our commodity price and interest rate exposures, we forego the benefits we would otherwise experience if commodity prices or interest rates were to change in our favor. In addition, even though monitored by management, our hedging and trading activities can result in losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the derivative arrangement, the hedge is imperfect, commodity prices move unfavorably related to our physical or financial positions, or hedging policies and procedures are not followed.

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Our success depends upon our ability to continually contract for new sources of natural gas supply.

In order to maintain or increase throughput levels on our gathering and transportation pipeline systems and asset utilization rates at our treating and processing plants, we must continually contract for new natural gas supplies and natural gas transportation services. We may not be able to obtain additional contracts for natural gas supplies for our natural gas gathering systems, and we may be unable to maintain or increase the levels of natural gas throughput on our transportation pipelines. The primary factors affecting our ability to connect new supplies of natural gas to our gathering systems include our success in contracting for existing natural gas supplies that are not committed to other systems and the level of drilling activity and production of natural gas near our gathering systems or in areas that provide access to our transportation pipelines or markets to which our systems connect. The primary factors affecting our ability to attract customers to our transportation pipelines consist of our access to other natural gas pipelines, natural gas markets, natural gas-fired power plants and other industrial end-users and the level of drilling and production of natural gas in areas connected to these pipelines and systems.

Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new oil and natural gas reserves. Drilling activity and production generally decrease as oil and natural gas prices decrease. We have no control over the level of drilling activity in our areas of operation, the amount of reserves underlying the wells and the rate at which production from a well will decline, sometimes referred to as the decline rate. In addition, we have no control over producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital.

A substantial portion of our assets, including our gathering systems and our processing and treating plants, are connected to natural gas reserves and wells for which the production will naturally decline over time. Accordingly, our cash flows will also decline unless we are able to access new supplies of natural gas by connecting additional production to these systems.

Our transportation pipelines are also dependent upon natural gas production in areas served by our pipelines or in areas served by other gathering systems or transportation pipelines that connect with our transportation pipelines. A material decrease in natural gas production in our areas of operation or in other areas that are connected to our areas of operation by third party gathering systems or pipelines, as a result of depressed commodity prices or otherwise, would result in a decline in the volume of natural gas we handle, which would reduce our revenues and operating income. In addition, our future growth will depend, in part, upon whether we can contract for additional supplies at a greater rate than the rate of natural decline in our currently connected supplies.

Transwestern derives a significant portion of its revenue from charges to its customers for reservation of capacity, which charges Transwestern receives regardless of whether these customers actually use the reserved capacity. Transwestern also generates revenue from transportation of natural gas for customers without reserved capacity. As the reserves available through the supply basins connected to Transwestern s systems naturally decline, a decrease in development or production activity could cause a decrease in the volume of natural gas available for transmission or a decrease in demand for natural gas transportation on the Transwestern system over the long run. Investments by third parties in the development of new natural gas reserves connected to Transwestern s facilities depend on many factors beyond Transwestern s control.

The volumes of natural gas we transport on our intrastate transportation pipelines may be reduced in the event that the prices at which natural gas is purchased and sold at the Waha Hub, the Katy Hub, the Carthage Hub and the Houston Ship Channel Hub, the four major natural gas trading hubs served by our pipelines, become unfavorable in relation to prices for natural gas at other natural gas trading hubs or in other markets as customers may elect to transport their natural gas to these other hubs or markets using pipelines other than those we operate.

We may not be able to fully execute our growth strategy if we encounter illiquid capital markets or increased competition for qualified assets.

Our strategy contemplates growth through the development and acquisition of a wide range of midstream, transportation, storage, propane and other energy infrastructure assets while maintaining a strong balance sheet. This strategy includes constructing and acquiring additional assets and businesses to enhance our ability to compete effectively and diversify our asset portfolio, thereby providing more stable cash flow. We regularly consider and enter into discussions regarding, and are currently contemplating, the acquisition of additional assets and businesses, stand alone development projects or other transactions that we believe will present opportunities to realize synergies and increase our cash flow.

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Consistent with our acquisition strategy, we are continuously engaged in discussions with potential sellers regarding the possible acquisition of additional assets or businesses. Such acquisition efforts may involve our participation in processes that involve a number of potential buyers, commonly referred to as auction processes, as well as situations in which we believe we are the only party or one of a very limited number of potential buyers in negotiations with the potential seller. We cannot assure you that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us.

In addition, we are experiencing increased competition for the assets we purchase or contemplate purchasing. Increased competition for a limited pool of assets could result in us losing to other bidders more often or acquiring assets at higher prices. Either occurrence would limit our ability to fully execute our growth strategy. Inability to execute our growth strategy may materially adversely impact the market price of our securities.

An impairment of goodwill and intangible assets could reduce our earnings.

At August 31, 2007, our consolidated balance sheet reflected $718.4 million of goodwill and $211.7 million of intangible assets. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. Accounting principles generally accepted in the United States require us to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. Long-lived assets such as intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we determine that any of our goodwill or intangible assets were impaired, we would be required to take an immediate charge to earnings with a correlative effect on partners equity and balance sheet leverage as measured by debt to total capitalization.

If we do not make acquisitions on economically acceptable terms, our future growth could be limited.

Our results of operations and our ability to grow and to increase distributions to Unitholders will depend in part on our ability to make acquisitions that are accretive to our distributable cash flow per unit.

We may be unable to make accretive acquisitions for any of the following reasons, among others:

- because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them;
- because we are unable to raise financing for such acquisitions on economically acceptable terms; or
- because we are outbid by competitors, some of which are substantially larger than us and have greater financial resources and lower costs of capital then we do.

Furthermore, even if we consummate acquisitions that we believe will be accretive, those acquisitions may in fact adversely affect our results of operations or result in a decrease in distributable cash flow per unit. Any acquisition involves potential risks, including the risk that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

encounter difficulties operating in new geographic areas or new lines of business;

incur or assume unanticipated liabilities, losses or costs associated with the business or assets acquired for which we are not indemnified or for which the indemnity is inadequate;

be unable to hire, train or retrain qualified personnel to manage and operate our growing business and assets;

less effectively manage our historical assets, due to the diversion of management s attention from other business concerns; or

incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

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If we consummate future acquisitions, our capitalization and results of operations may change significantly. As we determine the application of our funds and other resources, you will not have an opportunity to evaluate the economics, financial and other relevant information that we will consider.

If we do not continue to construct new pipelines, our future growth could be limited.

During the past several years, we have constructed several new pipelines, and are currently involved in constructing several new pipelines. Our results of operations and ability to grow and to increase distributable cash flow per unit will depend, in part, on our ability to construct pipelines that are accretive to our distributable cash flow. We may be unable to construct pipelines that are accretive to distributable cash flow for any of the following reasons, among others:

- we are unable to identify pipeline construction opportunities with favorable projected financial returns;
- we are unable to raise financing for its identified pipeline construction opportunities; or
- we are unable to secure sufficient natural gas transportation commitments from potential customers due to competition from other pipeline construction projects or for other reasons.

Furthermore, even if we construct a pipeline that we believe will be accretive, the pipeline may in fact adversely affect our results of operations or results from those projected prior to commencement of construction and other factors.

Expanding our business by constructing new pipelines and treating and processing facilities subjects us to risks.

One of the ways that we have grown our business is through the construction of additions to our existing gathering, compression, treating, processing and transportation systems. The construction of a new pipeline or the expansion of an existing pipeline, by adding additional compression capabilities or by adding a second pipeline along an existing pipeline, and the construction of new processing or treating facilities, involve numerous regulatory, environmental, political and legal uncertainties beyond our control and require the expenditure of significant amounts of capital that we will be required to finance through borrowings, the issuance of additional equity or from operating cash flow. If we undertake these projects, they may not be completed on schedule or at all or at the budgeted cost. Moreover, our revenues may not increase immediately following the completion of particular projects. For instance, if we build a new pipeline, the construction will occur over an extended period of time, but we may not materially increase our revenues until long after the project s completion. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which such growth does not materialize. As a result, new facilities may be unable to attract enough throughput or contracted capacity reservation commitments to achieve our expected investment return, which could adversely affect our results of operations and financial condition. As a result, the success of a pipeline construction project will likely depend upon the level of natural gas exploration and development drilling activity and the demand for pipeline transportation in the areas proposed to be serviced by the project as well as our ability to obtain commitments from producers in this area to utilize the newly constructed pipelines.

We depend on certain key producers for our supply of natural gas on the Southeast Texas System and North Texas System, and the loss of any of these key producers could adversely affect our financial results.

For our fiscal year ended August 31, 2007, ConocoPhillips Company, Enervest Operating, L.L.C, Encana Oil and Gas (USA) Inc., and Lear Energy, LP supplied us with approximately 90% of the Southeast Texas System s natural gas supply. For our fiscal year ended August 31, 2007, Encana Oil and Gas (USA), Inc., EOG Resources, Inc., XTO Energy Inc., and Chesapeake Energy Marketing, Inc. supplied us with approximately 80% of the North Texas System s natural gas supply. We are not the only option available to these producers for disposition of the natural gas they produce. To the extent that these and other producers may reduce the volumes of natural gas that they supply us, we would be adversely affected unless we were able to acquire comparable supplies of natural gas from other producers.

We depend on key customers to transport natural gas on our East Texas pipeline, ET Fuel System and HPL System.

We have nine- and ten-year fee-based transportation contracts with XTO Energy, Inc. pursuant to which XTO Energy has committed to transport certain minimum volumes of natural gas on our pipelines. We also have an eight-year fee-based transportation contract with TXU Portfolio Management Company, L.P., a subsidiary of TXU Corp., which we refer to as TXU Shipper, to transport natural gas on the ET Fuel System to TXU s electric generating power plants. We have also entered into two eight-year natural gas storage contracts with TXU Shipper to store natural gas at the two

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natural gas storage facilities that are part of the ET Fuel System. Each of the contracts with TXU Shipper may be extended by TXU Shipper for two additional five-year terms. The failure of XTO Energy or TXU Shipper to fulfill their contractual obligations under these contracts could have a material adverse effect on our cash flow and results of operations if we were not able to replace these customers under arrangements that provide similar economic benefits as these existing contracts.

We completed our Cleburne to Carthage pipeline in April 2007. The major shippers through the Cleburne to Carthage pipeline expansion to interstate and intrastate markets are XTO Energy, Inc., EOG Resources, Inc., Chesapeake Energy Marketing, Inc., Encana Marketing (USA), Inc., Quicksilver Resources, Inc., and Leor Energy, L.P. These shippers have long-term contracts ranging from five to 10 years. The failure of these shippers to fulfill their contractual obligations could have a material adverse effect on our cash flow and results of operations if we were not able to replace these customers under arrangements that provide similar economic benefits as these existing contracts.

Federal, state or local regulatory measures could adversely affect our business.

Our midstream and intrastate transportation and storage operations are generally exempt from Federal Energy Regulatory Commission, or (FERC), regulation under the NGA, but FERC regulation still significantly affects our business and the market for our products. The rates, terms and conditions of some of the transportation and storage services we provide on the HPL System, the East Texas pipeline, the Oasis pipeline and the ET Fuel System are subject to FERC regulation under Section 311 of the Natural Gas Policy Act, or NGPA. Under Section 311, rates charged for transportation and storage must be fair and equitable amounts. Amounts collected in excess of fair and equitable rates are subject to refund with interest, and the terms and conditions of service, set forth in the pipeline s statement of operating conditions, are subject to FERC review and approval. Should FERC determine not to authorize rates equal to or greater than our currently approved rates we may suffer a loss of revenue. Failure to observe the service limitations applicable to storage and transportation service under Section 311, failure to comply with the rates approved by FERC for Section 311 service, and failure to comply with the terms and conditions of service established in the pipeline s FERC-approved statement of operating conditions could result in an alteration of jurisdictional status and/or the imposition of administrative, civil and criminal penalties.

Our intrastate natural gas transportation and storage facilities are subject to state regulation in Texas, New Mexico, Arizona, Louisiana, Utah and Colorado, the states in which we operate these types of pipelines. Our intrastate transportation facilities located in Texas are subject to regulation as common purchasers and as gas utilities by the Texas Railroad Commission, or TRRC. The TRRC s jurisdiction extends to both rates and pipeline safety. The rates we charge for transportation and storage services are deemed just and reasonable under Texas law unless challenged in a complaint. Should a complaint be filed or should regulation become more active, our business may be adversely affected.

Our midstream gathering, processing and intrastate transportation operations are also subject to ratable take and common purchaser statutes in Texas, New Mexico, Arizona, Louisiana, Utah and Colorado. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited economic regulation of natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering rates and access. Other state and local regulations also affect our business.

Our storage facilities are also subject to the jurisdiction of the TRRC. Generally, the TRRC has jurisdiction over all underground storage of natural gas in Texas, unless the facility is part of an interstate gas pipeline facility. Because the natural gas storage facilities of the ET Fuel System and HPL System are only connected to intrastate gas pipelines, they fall within the TRRC s jurisdiction and must be operated pursuant to TRRC permit. Certain changes in ownership or operation of TRCC-jurisdictional storage facilities, such as facility expansions and increases in the maximum operating pressure, must be approved by the TRRC through an amendment to the facility s existing permit. In addition, the TRRC must approve transfers of the permits. Texas laws and regulations also require all natural gas storage facilities to be operated to prevent waste, the uncontrolled escape of gas, pollution and danger to life or property. Accordingly, the TRRC requires natural gas storage facilities to implement certain safety, monitoring, reporting and record-keeping measures. Violations of the terms and provisions of a TRRC permit or a TRRC order or regulation can result in the modification, cancellation or suspension of an operating permit and/or civil penalties, injunctive relief, or both.

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The states in which we conduct operations administer federal pipeline safety standards under the Pipeline Safety Act of 1968, which requires certain pipeline companies to comply with safety standards in constructing and operating the pipelines, and subjects pipelines to regular inspections. Some of our gathering facilities are exempt from the requirements of this Act. In respect to recent pipeline accidents in other parts of the country, Congress and the Department of Transportation have passed or are considering heightened pipeline safety requirements.

Failure to comply with applicable regulations under the NGA, NGPA, Pipeline Safety Act and certain state laws could result in the imposition of administrative, civil and criminal remedies.

The FERC and CFTC are pursuing legal actions against us relating to certain natural gas trading and transportation activities, and related third party claims have been filed against us and ETE.

On July 26, 2007, the Federal Energy Regulatory Commission (the FERC) issued to us an Order to Show Cause and Notice of Proposed Penalties (the Order and Notice) that contains allegations that we violated FERC rules and regulations. The FERC has alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other dates from December 2003 though August 2005, in order to benefit financially from ETP s commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC has alleged that during these periods we violated the FERC s then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by FERC under authority of the Natural Gas Act (NGA). We allegedly violated this rule by artificially suppressing prices that were included in the Platts *Inside FERC* Houston Ship Channel index, published by the McGraw Hill Companies, on which the pricing of many physical natural gas contracts and financial derivatives are based. Additionally, the FERC has alleged that we manipulated daily prices at the Waha Hub in west Texas on certain dates in December 2005. The FERC s action against us also includes allegations related to our Oasis pipeline, an intrastate pipeline that transports natural gas between the Waha Hub and the Katy Hub near Houston, Texas. The Oasis pipeline also transports interstate natural gas pursuant to Natural Gas Policy Act (NGPA) Section 311 authority, and subject to FERC-approved rates, terms and conditions of service. The allegations related to the Oasis pipeline include claims that the Oasis pipeline violated NGPA regulations from January 26, 2004 through June 30, 2006 by granting undue preference to its affiliates for interstate NGPA Section 311 pipeline service to the detriment of similarly situated non-affiliated shippers and by charging in excess of the FERC-approved maximum lawful rate for interstate NGPA Section 311 transportation. The FERC also seeks to revoke, for a period of 12 months, our blanket marketing authority for sales of natural gas in interstate commerce at negotiated rates, which activity is expected to account for approximately 1.0% of our operating income for our 2007 fiscal year. If the FERC is successful in revoking our blanket marketing authority, our sales of natural gas at market-based rates would be limited to sales of natural gas to retail customers (such as utilities and other end-users) and sales from our own production, and any other sales of natural gas by us would be required to be made at prices that would be subject to FERC approval. Also on July 26, 2007, the United States Commodity Futures Trading Commission (the CFTC) filed suit in United States District Court for the Northern District of Texas alleging that we violated provisions of the Commodity Exchange Act by attempting to manipulate natural gas prices in the Houston Ship Channel. It is alleged that such manipulation was attempted during the period from late September through early December 2005 to allow us to benefit financially from our commodities derivatives positions.

In its Order and Notice, the FERC is seeking $70.1 million in disgorgement of profits, plus interest, and $97.5 million in civil penalties relating to these matters. The FERC ordered ETP to show cause why the allegations against ETP made in the Order and Notice are not true. ETP filed its response to the Order and Notice with the FERC on October 9, 2007, which response refuted the FERC s claims and requested a dismissal of the FERC proceeding. The FERC has taken the position that, once it receives our response, it has several options as to how to proceed, including issuing an order on the merits, requesting briefs, or setting specified issues for a trial-type hearing before an administrative law judge. In its lawsuit, the CFTC is seeking civil penalties of $130,000 per violation, or three times the profit gained from each violation, and other ancillary relief. The CFTC has not specified the number of alleged violations or the amount of alleged profit related to the matters specified in its complaint. On October 15, 2007, ETP filed a motion to dismiss in the United State District Court for the Northern District of Texas on the basis that the CFTC has not stated a valid cause of action under the Commodity Exchange Act.

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It is our position that our trading and transportation activities during the periods at issue complied in all material respects with applicable laws and regulations, and we intend to contest these cases vigorously. However, the laws and regulations related to alleged market manipulation are vague, subject to broad interpretation, and offer little guiding precedent, while at the same time the FERC and CFTC hold substantial enforcement authority. At this time, neither we nor ETE is able to predict the final outcome of these matters.

In addition to the FERC and CFTC legal actions, it is also possible that third parties will assert claims against us and ETE for damages related to these matters, which parties could include natural gas producers, royalty owners, taxing authorities, and parties to physical natural gas contracts and financial derivatives based on the *Platts Inside* FERC Houston Ship Channel index during the periods in question. In this regard, two natural gas producers have initiated legal proceedings against us and ETE for claims related to the FERC and CFTC claims. One of the producers has brought suit in Texas state court against us and ETE based on contractual and tort claims relating to alleged manipulation of natural gas prices at the Waha Hub in West Texas and the Houston Ship Channel and is seeking unspecified direct, indirect, consequential and punitive damages. The second producer has brought suit in Texas state court against us and ETE based on contract and tort claims relating to a natural gas purchase contract to which we and this producer are parties. This producer seeks unspecified damages and requests pre-arbitration discovery of information related to our activities prior to further pursuing a claim for manipulation of natural gas prices in the Houston Ship Channel. The producer also seeks to intervene in the FERC proceeding, alleging that it is entitled to a FERC-ordered refund of $5.9 million, plus interest and costs. In addition, a plaintiff has filed a putative class action against us in the United States District Court for the Southern District of Texas. This suit alleges that we unlawfully manipulated the price of natural gas futures and options contracts on the New York Mercantile Exchange, or NYMEX, in violation of the Commodity Exchange Act, that we have the market power to manipulate index prices, and that we used this market power to artificially depress the index prices at major natural gas trading hubs, including the Houston Ship Channel, Waha, and Permian hubs, in order to benefit our natural gas physical and financial trading positions. The suit alleges that this unlawful depression of index prices by us manipulated the NYMEX prices for natural gas futures and options contracts to artificial levels between December 29, 2003 and December 31, 2005, causing unspecified damages to plaintiff and all others who purchased and/or sold natural gas futures and options contracts on NYMEX during that period.

We are expensing the legal fees, consultants   fees and related expenses relating to these matters in the periods in which such expenses are incurred. In addition, our existing accruals for litigation and contingencies include an accrual related to these matters. At this time, we are unable to predict the outcome of these matters; however, it is possible that the amount we become obligated to pay as a result of the final resolution of these matters, whether on a negotiated settlement basis or otherwise, will exceed the amount of our existing accrual related to these matters. In accordance with applicable accounting standards, we will review the amount of our accrual related to these matters as developments related to these matters occur and we will adjust our accrual if we determine that it is probable that the amount we may ultimately become obligated to pay as a result of the final resolution of these matters is greater than the amount of our existing accrual for these matters. As our accrual amounts are non-cash, any cash payment of an amount in resolution of these matters would likely be made from cash from operations or borrowings, which payments would reduce our cash available for distributions either directly or as a result of increased principal and interest payments necessary to service any borrowings incurred to finance such payments. If these payments are substantial, we may experience a material adverse impact on our results of operations, cash available for distribution and our liquidity.

Transwestern is subject to laws, regulations and policies governing the rates it is allowed to charge for its services.

Laws, regulations and policies governing interstate natural gas pipeline rates could affect Transwestern   s ability to establish rates, to charge rates that would cover future increases in its costs, or to continue to collect rates that cover current costs. Natural gas companies must charge rates that are deemed to be just and reasonable by FERC. The rates, terms and conditions of service provided by natural gas companies are required to be on file with FERC in FERC-approved tariffs. Pursuant to the Natural Gas Act, existing rates may be challenged by complaint and rate increases proposed by the natural gas company may be challenged by protest. Further, other than for rates set under market-based rate authority, rates must be cost-based and the FERC may order refunds of amounts collected under rates that were in excess of a just and reasonable level. Transwestern filed a general rate case in September 2006. The rates in this proceeding were settled and are final and no longer subject to refund. Transwestern is not required to file new cost-based rates until October 2011. In addition, shippers (other than shippers who have agreed not to challenge our tariff rates through 2010 pursuant to our recent settlement agreement with these shippers) may challenge the lawfulness of tariff rates that have become final and effective. The FERC may also investigate such rates absent shipper complaint. Any successful complaint or protest against Transwestern   s rates could reduce our revenues associated with providing transmission services on a prospective basis. We cannot assure you that we will be able to recover all of Transwestern   s costs through existing or future rates.

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The ability of interstate pipelines held in tax-pass-through entities, like us, to include an allowance for income taxes in their regulated rates has been subject to extensive litigation before FERC and the courts, and the FERC s current policy is subject to future refinement or change.

The ability of interstate pipelines held in tax-pass-through entities, like us, to include an allowance for income taxes as a cost-of-service element in their regulated rates has been subject to extensive litigation before FERC and the courts for a number of years. In July 2004, the D.C. Circuit issued its opinion in *BP West Coast Products, LLC* v. FERC, which upheld, among other things, the FERC s determination that certain rates of an interstate petroleum products pipeline, Santa Fe Pacific Pipeline, or SFPP, were grandfathered rates under the Energy Policy Act of 1992 and that SFPP s shippers had not demonstrated substantially changed circumstances that would justify modification to those rates. The Court also vacated the portion of the FERC s decision applying the *Lakehead* policy. In the *Lakehead* decision, the FERC allowed an oil pipeline publicly traded partnership to include in its cost-of-service an income tax allowance to the extent that its Unitholders were corporations subject to income tax. In May and June 2005, the FERC issued a statement of general policy, as well as an order on remand of *BP West Coast*, respectively, in which the FERC stated it will permit pipelines to include in cost-of-service a tax allowance to reflect actual or potential income tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline s owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as, or owned by, tax-pass-through entities, it still entails rate risk due to the case-by-case review requirement. In December 2005, the FERC issued its first case-specific oil pipeline review of the income tax allowance issues in the SFPP proceeding, reaffirming its new income tax allowance policy and directing SFPP to provide certain evidence necessary for the pipeline to determine its income allowance. Further, in the December 2005 order, the FERC concluded that for tax allowance purposes, the FERC would apply a rebuttable presumption that corporate partners of pass-through entities pay the maximum marginal tax rate of 35% and that non-corporate partners of pass-through entities pay a marginal rate of 28%. The FERC indicated that it would address the income tax allowance issues further in the context of SFPP s compliance filing submitted in March 2006. In December 2006, the FERC ruled on some of the issues raised as to the March 2006 SFPP compliance filing, upholding most of its determinations in the December 2005 order. FERC did revise its rebuttable presumption as to corporate partners marginal tax rate from 35% to 34%. The FERC s *BP West Coast* remand decision and the new income tax allowance policy were appealed to the D.C. Circuit. In May 2007, the D.C. Circuit affirmed FERC s favorable income tax allowance policy. As a result, we remain eligible to include an allowance in the tariff rates we charge for natural gas transportation on our Transwestern interstate pipeline system, subject to our ability to demonstrate compliance with FERC s policy. The specific terms and application of that policy remain subject to future refinement or change by FERC and the courts. As FERC has recently approved our tariff rates specified in a settlement agreement with shippers, the allowance for income taxes as a cost-of-service element in our tariff rates is not subject to challenge prior to the expiration of our settlement agreement in 2011.

Transwestern is subject to laws, regulations and policies governing terms and conditions of service, which control many aspects of its business.

In addition to rate oversight, FERC s regulatory authority extends to many other aspects of Transwestern s business and operations, including:

- operating terms and conditions of service;
- the types of services Transwestern may offer to its customers;
- construction of new facilities;
- acquisition, extension or abandonment of services or facilities;
- reporting and information posting requirements;

accounts and records; and

relationships with affiliated companies involved in all aspects of the natural gas and energy businesses.

Compliance with these requirements can be costly and burdensome. Future changes to laws, regulations and policies in these areas may impair Transwestern s ability to compete for business or increase the cost and burden of operation.

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Failure to comply with all applicable FERC-administered statutes, rules, regulations and orders, could bring substantial penalties and fines. Under the Energy Policy Act of 2005, FERC has civil penalty authority under the Natural Gas Act to impose penalties for current violations of up to $1.0 million per day for each violation.

Finally, we cannot give any assurance regarding the likely future regulations under which we will operate Transwestern or the effect such regulation could have on our business, financial condition, and results of operations.

Our business involves hazardous substances and may be adversely affected by environmental regulation.

Our natural gas as well as our propane operations are subject to stringent federal, state, and local environmental laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of permits for our operations, result in capital expenditures to manage, limit, or prevent emissions, discharges, or releases of various materials from our pipelines, plants, and facilities, and impose substantial liabilities for pollution resulting from our operations. Several governmental authorities, such as the U.S. Environmental Protection Agency, have the power to enforce compliance with these laws and regulations and the permits issued under them and frequently mandate difficult and costly remediation measures and other actions. Failure to comply with these laws, regulations, and permits may result in the assessment of administrative, civil, and criminal penalties, the imposition of remedial obligations, and the issuance of injunctive relief.

We may incur substantial environmental costs and liabilities because the underlying risk are inherent to our operations. Joint and several, strict liability may be incurred under environmental laws and regulations in connection with discharges or releases of petroleum hydrocarbons or wastes on, under, or from our properties and facilities, many of which have been used for industrial activities for a number of years. Private parties, including the owners of properties through which our gathering systems pass or facilities where our petroleum hydrocarbons or wastes are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. The total accrued future estimated cost of remediation activities relating to our Transwestern pipeline operations is approximately $12.3 million, which activities are expected to continue for several years.

Changes in environmental laws and regulations occur frequently, and any such changes that result in more stringent and costly waste handling, storage, transport disposal or remediation requirements could have a material adverse effect on our operations or financial position. For instance, the Texas Commission on Environmental Quality, or TCEQ, recently adopted a rule further restricting the level of nitrogen oxides, or NOx, that may be emitted from stationary gas-fired reciprocating internal combustion engines located in counties comprising the Dallas-Fort Worth eight hour ozone non-attainment area. As a result of the adoption of this rule, by March 1, 2009, we must either modify or replace seven owned and 21 leased compressor units currently located in the Dallas-Fort Worth non-attainment area that do not satisfy the TCEQ s new, more stringent NOx emission limitations. We are evaluating our options to comply with this rule and thus the costs to comply currently are not reasonably estimable but such costs ultimately could be material to our operations. Also, the U.S. Congress is actively considering legislation and more than a dozen states have already taken legal measures to reduce emissions of certain gases, commonly referred to as greenhouse gases and including carbon dioxide and methane, that may be contributing to warming of the Earth s atmosphere. Moreover, the U.S. Supreme Court recently decided, in *Massachusetts, et al. v. EPA,* that greenhouse gases fall within the federal Clean Air Act s definition of air pollutant, which could result in the regulation of greenhouse gas emissions from stationary sources under certain Clean Air Act programs. New legislation or regulatory programs that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse affect on our operations and demand for our services.

Any reduction in the capacity of, or the allocations to, our shippers in interconnecting, third-party pipelines could cause a reduction of volumes transported in our pipelines, which would adversely affect our revenues and cash flow.

Users of our pipelines are dependent upon connections to and from third-party pipelines to receive and deliver natural gas and NGLs. Any reduction in the capacities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes could result in reduced volumes being transported in our pipelines. Similarly, if additional shippers begin transporting volumes of natural gas and NGLs over interconnecting pipelines, the allocations to existing shippers in these pipelines would be reduced, which could also reduce volumes transported in our pipelines. Any reduction in volumes transported in our pipelines would adversely affect our revenues and cash flow.

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We encounter competition from other midstream, transportation and storage companies and propane companies.

We experience competition in all of our markets. Our principal areas of competition include obtaining natural gas supplies for the Southeast Texas System, North Texas System and HPL System and natural gas transportation customers for our transportation pipeline systems. Our competitors include major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport, store and market natural gas. The Southeast Texas System competes with natural gas gathering and processing systems owned by DCP Midstream, LLC. The North Texas System competes with Crosstex North Texas Gathering, LP and Devon Gas Services, LP for gathering and processing. The East Texas pipeline competes with other natural gas transportation pipelines that serve the Bossier Sands area in east Texas and the Barnett Shale region in north Texas. The ET Fuel System and the Oasis pipeline compete with a number of other natural gas pipelines, including interstate and intrastate pipelines that link the Waha Hub. The ET Fuel System competes with other natural gas transportation pipelines serving the Dallas/Ft. Worth area and other pipelines that serve the east central Texas and south Texas markets. Pipelines that we compete with in these areas include those owned by Atmos Energy Corporation, Enterprise Products Partners, L.P., and Enbridge, Inc. Some of our competitors may have greater financial resources and access to larger natural gas supplies than we do.

The acquisitions of the HPL System and the Transwestern pipeline increased the number of interstate pipelines and natural gas markets to which we have access and expanded our principal areas of competition to areas such as southeast Texas and the Texas Gulf Coast. As a result of our expanded market presence and diversification, we face additional competitors, such as major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport, store and market natural gas, that may have greater financial resources and access to larger natural gas supplies than we do.

The interstate pipeline business of Transwestern competes with those of other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service and the flexibility and reliability of service. Natural gas competes with other forms of energy available to our customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternate fuels and other factors, including weather and natural gas storage levels, affect the levels of natural gas transportation volumes in the areas served by our pipelines.

Our propane business competes with a number of large national and regional propane companies and several thousand small independent propane companies. Because of the relatively low barriers to entry into the retail propane market, there is potential for small independent propane retailers, as well as other companies that may not currently be engaged in retail propane distribution, to compete with our retail outlets. As a result, we are always subject to the risk of additional competition in the future. Generally, warmer-than-normal weather further intensifies competition. Most of our propane retail branch locations compete with several other marketers or distributors in their service areas. The principal factors influencing competition with other retail propane marketers are:

- price,
- reliability and quality of service,
- responsiveness to customer needs,
- safety concerns,
- long-standing customer relationships,
- the inconvenience of switching tanks and suppliers, and

the lack of growth in the industry.

The inability to continue to access tribal lands could adversely affect Transwestern s ability to operate its pipeline system and the inability to recover the cost of right-of-way grants on tribal lands could adversely affect its financial results.

Transwestern s ability to operate its pipeline system on certain lands held in trust by the United States for the benefit of a Native American Tribe, which we refer to as tribal lands, will depend on its success in maintaining existing rights-of-

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way and obtaining new rights-of-way on those tribal lands. Securing additional rights-of-way is also critical to Transwestern s ability to pursue expansion projects. We cannot provide any assurance that Transwestern will be able to acquire new rights-of-way on tribal lands or maintain access to existing rights-of-way upon the expiration of the current grants. Our financial position could be adversely affected if the costs of new or extended right-of-way grants cannot be recovered in rates.

We are exposed to the credit risk of our customers, and an increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our Unitholders.

The risks of nonpayment and nonperformance by our customers are a major concern in our business. Participants in the energy industry have been subjected to heightened scrutiny from the financial markets in light of past collapses and failures of other energy companies. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. Any substantial increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our Unitholders.

We may be unable to bypass the processing plants, which could expose us to the risk of unfavorable processing margins.

Because of our ownership of the Oasis pipeline and ET Fuel System, we can generally elect to bypass the processing plant when processing margins are unfavorable and instead deliver pipeline-quality gas by blending rich gas from the gathering systems with lean gas transported on the Oasis pipeline and ET Fuel System. In some circumstances, such as when we do not have a sufficient amount of lean gas to blend with the volume of rich gas that we receive at the processing plant, we may have to process the rich gas. If we have to process when processing margins are unfavorable, our results of operations will be adversely affected.

We may be unable to retain existing customers or secure new customers, which would reduce our revenues and limit our future profitability.

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors beyond our control, including competition from other pipelines, and the price of, and demand for, natural gas in the markets we serve.

For our fiscal year ended August 31, 2007, approximately 22.4% of our sales of natural gas were to industrial end-users and utilities. As a consequence of the increase in competition in the industry and volatility of natural gas prices, end-users and utilities are increasingly reluctant to enter into long-term purchase contracts. Many end-users purchase natural gas from more than one natural gas company and have the ability to change providers at any time. Some of these end-users also have the ability to switch between gas and alternate fuels in response to relative price fluctuations in the market. Because there are many companies of greatly varying size and financial capacity that compete with us in the marketing of natural gas, we often compete in the end-user and utilities markets primarily on the basis of price. The inability of our management to renew or replace our current contracts as they expire and to respond appropriately to changing market conditions could have a negative effect on our profitability.

Our storage business depends on neighboring pipelines to transport natural gas.

To obtain natural gas, our storage business depends on the pipelines to which they have access. Many of these pipelines are owned by parties not affiliated with us. Any interruption of service on those pipelines or adverse change in their terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport natural gas to and from our facilities and a corresponding material adverse effect on our storage revenues. In addition, the rates charged by those interconnected pipelines for transportation to and from our facilities affect the utilization and value of our storage services. Significant changes in the rates charged by those pipelines or the rates charged by other pipelines with which the interconnected pipelines compete could also have a material adverse effect on our storage revenues.

Our pipeline integrity program may cause us to incur significant costs and liabilities.

Our operations are subject to regulation by the U.S. Department of Transportation, or DOT, under the Pipeline Hazardous Materials Safety Administration (PHMSA), pursuant to which the PHMSA has established regulations relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities.

Moreover, the PHMSA, through the Office of Pipeline Safety, has promulgated a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as high consequence areas. Based on the results of our current pipeline integrity testing programs, we estimate that compliance with these federal regulations and analogous state pipeline integrity requirements for its existing transportation assets other than the Transwestern pipeline will result in capital costs of $7.9 million during the period between the remainder of calendar year 2007 through 2008, as well as operating and maintenance costs of $13.1 million during that period. During this same time period, we estimate that we will incur pipeline integrity operating and on-going annual maintenance capital costs of $18.7 million with respect to our Transwestern pipeline. Through August 31, 2007, Transwestern did not incur any costs associated with the IMP Rule and has satisfied all of the requirements until 2010. Through August 31, 2007, a total of $13.4 million of capital costs and $11.8 million of operating and maintenance costs have been incurred for pipeline integrity testing for transportation assets other than Transwestern. Through August 31, 2007, a total of $2.9 million of capital costs and $0.1 million of operating and maintenance costs have been incurred for pipeline integrity testing for Transwestern. Integrity testing and assessment of all of these assets will continue, and the potential exists that results of such testing and assessment could cause us to incur even greater capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines.

Since weather conditions may adversely affect demand for propane, our financial conditions may be vulnerable to warm winters.

Weather conditions have a significant impact on the demand for propane for heating purposes because the majority of our customers rely heavily on propane as a heating fuel. Typically, we sell approximately two-thirds of our retail propane volume during the peak-heating season of October through March. Our results of operations can be adversely affected by warmer winter weather which results in lower sales volumes. In addition, to the extent that warm weather or other factors adversely affect our operating and financial results, our access to capital and our acquisition activities may be limited. Variations in weather in one or more of the regions where we operate can significantly affect the total volume of propane that we sell and the profits realized on these sales. Agricultural demand for propane may also be affected by weather, including periods of unseasonably cold or hot periods or dry weather conditions which may impact agricultural operations.

A natural disaster, catastrophe or other event could result in severe personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow and, accordingly, affect the market price of our Common Units.

Some of our operations involve risks of personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow. For example, natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. Virtually all of our operations are exposed to potential natural disasters, including hurricanes, tornadoes, storms, floods and/or earthquakes.

If one or more facilities that are owned by us, or that deliver natural gas or other products to us, are damaged by severe weather or any other disaster, accident, catastrophe or event, our operations could be significantly interrupted. Similar interruptions could result from damage to production or other facilities that supply our facilities or other stoppages arising from factors beyond our control. These interruptions might involve significant damage to people, property or the environment, and repairs might take from a week or less for a minor incident to six months or more for a major interruption. Any event that interrupts the revenues generated by our operations, or which causes us to make significant expenditures not covered by insurance, could reduce our cash available for paying distributions to our Unitholders and, accordingly, adversely affect the market price of our Common Units.

We believe that we maintain adequate insurance coverage, although insurance will not cover many types of interruptions that might occur. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and results of operations. In addition, the proceeds of any such insurance may not be paid in a timely manner and may be insufficient if such an event were to occur.

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Terrorist attacks aimed at our facilities could adversely affect our business, results of operations, cash flows and financial condition.

Since the September 11, 2001 terrorist attacks on the United States, the United States government has issued warnings that energy assets, including our nation s pipeline infrastructure, may be the future target of terrorist organizations. Any terrorist attack on our facilities or pipelines or those of our customers could have a material adverse effect on our business.

Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profit margins.

The propane industry is a margin-based business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability is sensitive to changes in energy prices, and in particular, changes in wholesale prices of propane. When there are sudden and sharp increases in the wholesale cost of propane, we may be unable to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to changes in supply or other market conditions over which we have no control. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve their propane usage or convert to alternative energy sources.

Our results of operations and our ability to make distributions or pay interest or principal on debt securities could be negatively impacted by price and inventory risk related to our propane business and management of these risks.

We generally attempt to minimize our cost and inventory risk related to our propane business by purchasing propane on a short-term basis under supply contracts that typically have a one-year term and at a cost that fluctuates based on the prevailing market prices at major delivery points. In order to help ensure adequate supply sources are available during periods of high demand, we may purchase large volumes of propane during periods of low demand or low price, which generally occur during the summer months, for storage in our facilities, at major storage facilities owned by third parties or for future delivery. This strategy may not be effective in limiting our cost and inventory risks if, for example, market, weather or other conditions prevent or allocate the delivery of physical product during periods of peak demand. If the market price falls below the cost at which we made such purchases, it could adversely affect our profits.

Some of our propane sales are pursuant to commitments at fixed prices. To mitigate the price risk related to our anticipated sales volumes under the commitments, we may purchase and store physical product and/or enter into fixed price over-the-counter energy commodity forward contracts and options. Generally, over-the-counter energy commodity forward contracts have terms of less than one year. We enter into such contracts and exercise such options at volume levels that we believe are necessary to manage these commitments. The risk management of our inventory and contracts for the future purchase of product could impair our profitability if the customers do not fulfill their obligations.

We also engage in other trading activities, and may enter into other types of over-the-counter energy commodity forward contracts and options. These trading activities are based on our management s estimates of future events and prices and are intended to generate a profit. However, if those estimates are incorrect or other market events outside of our control occur, such activities could generate a loss in future periods and potentially impair our profitability.

We are dependent on our principal propane suppliers, which increases the risk of an interruption in supply.

During fiscal 2007, we purchased approximately 23% and 22% of our propane from Targa Liquids and Enterprise, respectively. In addition, we purchased approximately 21% of our propane from M-P Energy Partnership, a Canadian partnership in which we owned through August 31, 2007 a 60% interest. Enterprise is a subsidiary of Enterprise GP, an entity that owns approximately 17.6% of ETE s outstanding Common Units and a 34.9% non-controlling interest in the General Partner of ETE, and is therefore considered to be an affiliate of us. Titan purchases substantially all of its propane from Enterprise pursuant to an agreement that expires in 2010. If supplies from these sources were interrupted, the cost of procuring replacement supplies and transporting those supplies from alternative locations might be materially higher and, at least on a short-term basis, margins could be adversely affected. Supply from Canada is subject to the additional risk of disruption associated with foreign trade such as trade restrictions, shipping delays and political, regulatory and economic instability.

Historically, a substantial portion of the propane that we purchase has originated from one of the industry s major markets located in Mt. Belvieu, Texas and has been shipped to us through major common carrier pipelines. Any significant interruption in the service at Mt. Belvieu or other major market points, or on the common carrier pipelines we use, would adversely affect our ability to obtain propane.

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Competition from alternative energy sources may cause us to lose propane customers, thereby reducing our revenues.

Competition in our propane business from alternative energy sources has been increasing as a result of reduced regulation of many utilities. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and the availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our revenues. Fuel oil also competes with propane and is generally less expensive than propane. In addition, the successful development and increasing usage of alternative energy sources could adversely affect our operations.

Energy efficiency and technological advances may affect the demand for propane and adversely affect our operating results.

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has decreased the demand for propane by retail customers. Stricter conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could adversely affect our operations.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat us as a corporation or if we become subject to a material amount of entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to Unitholders.

The anticipated after-tax economic benefit of an investment in our Common Units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and we would likely pay additional state income taxes as well. Distributions to Unitholders would generally be taxed again as corporate distributions, and none of our income, gains, losses or deductions would flow through to Unitholders. Because a tax would then be imposed upon us as a corporation, our cash available for distribution to Unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the Unitholders, likely causing a substantial reduction in the value of our Common Units.

Current law may change, causing us to be treated as a corporation for federal income tax purposes or otherwise subjecting us to entity-level taxation. For example, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, the cash available for distribution to our Unitholders would be reduced.

The tax treatment of our structure is subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of Unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to Treasury Regulations and other modifications and interpretations. The present U.S. federal income tax treatment of an investment in our Common Units may be modified by administrative, legislative or judicial interpretation at any time. Any modification to the U.S. federal income tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal

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income tax purposes that is not taxable as a corporation (referred to as the Qualifying Income Exception), affect or cause us to change our business activities, affect the tax considerations of an investment in us, change the character or treatment of portions of our income and adversely affect an investment in our Common Units. For example, in response to certain recent developments, members of Congress are considering substantive changes to the definition of qualifying income under Internal Revenue Code section 7704(d). It is possible that these efforts could result in changes to the existing U.S. federal tax laws that affect publicly traded partnerships, including us. We are unable to predict whether any of these changes or other proposals will ultimately be enacted. Any such changes could negatively impact the value of an investment in our Common Units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our Unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. If the IRS were to challenge this method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our Unitholders.

If the IRS contests the federal income tax positions we take, the market for our Common Units may be adversely affected, and the costs of any such contest will reduce cash available for distributions to our Unitholders.

The IRS may adopt positions that differ from the conclusions of our counsel or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel s conclusions or the positions we take. A court may not agree with some or all of our counsel s conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for our Common Units and the prices at which they trade. In addition, the costs of any contest with the IRS will be borne by us reducing the cash available for distribution to our Unitholders.

Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Because our Unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, Unitholders will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if they receive no cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from the taxation of their share of our taxable income. In such case, Unitholders would still be required to pay federal income taxes and, in some cases, state and local income taxes on their share of our taxable income regardless of the amount, if any, of any cash distributions they receive from us.

Tax gain or loss on disposition of our Common Units could be more or less than expected.

If Unitholders sell their Common Units, they will recognize a gain or loss equal to the difference between the amount realized and the tax basis in those Common Units. Because distributions in excess of the Unitholder s allocable share of our net taxable income decrease the Unitholder s tax basis in their Common Units, the amount, if any, of such prior excess distributions with respect to the units sold will, in effect, become taxable income to the Unitholder if they sell such units at a price greater than their tax basis in those units, even if the price received is less than their original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a Unitholder s share of our nonrecourse liabilities, if a Unitholder sells units, the Unitholder may incur a tax liability in excess of the amount of cash received from the sale.

Tax-exempt entities and foreign persons face unique tax issues from owning Common Units that may result in adverse tax consequences to them.

Investment in Common Units by tax-exempt entities, including employee benefit plans and individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to Unitholders who are organizations exempt from federal income tax, may be taxable to them as unrelated

business taxable income. Distributions to non-U.S. persons will be reduced by withholding taxes, at the highest applicable effective tax rate, and non-U.S. persons will be required to file federal income tax returns and generally pay tax on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our Common Units.

We treat each purchaser of Common Units as having the same tax benefits without regard to the actual Common Units purchased. The IRS may challenge this treatment, which could result in a Unitholder owing more tax and may adversely affect the value of the Common Units.

To maintain the uniformity of the economic and tax characteristics of our Common Units, we have adopted certain depreciation and amortization positions that are inconsistent with existing Treasury Regulations. These positions may result in an understatement of deductions and losses and an overstatement of income and gain to our Unitholders. For example, we do not amortize certain goodwill assets, the value of which has been attributed to certain of our outstanding units. A subsequent holder of those units is entitled to an amortization deduction attributable to that goodwill under Internal Revenue Code Section 743(b). But, because we cannot identify these units once they are traded by the initial holder, we do not give any subsequent holder of a unit any such amortization deduction. This approach understates deductions available to those Unitholders who own those units and may result in those Unitholders believing that they have a higher tax basis in their units than is actually the case. This, in turn, may result in those Unitholders reporting less gain or more loss on a sale of their units than is actually the case.

The IRS may challenge the manner in which we calculate our Unitholder s basis adjustment under Section 743(b). If so, because neither we nor a Unitholder can identify the units to which this issue relates once the initial holder has traded them, the IRS may assert adjustments to all Unitholders selling units within the period under audit as if all Unitholders owned such units.

Any position we take that is inconsistent with applicable Treasury Regulations may have to be disclosed on our federal income tax return. This disclosure increases the likelihood that the IRS will challenge our positions and propose adjustments to some or all of our Unitholders.

A successful IRS challenge to this position or other positions we may take could adversely affect the amount of taxable income or loss allocated to our Unitholders. It also could affect the gain from a Unitholder s sale of Common Units and could have a negative impact on the value of the Common Units or result in audit adjustments to our Unitholders tax returns without the benefit of additional deductions. Moreover, because one of our subsidiaries that is organized as a C corporation for federal income tax purposes owns units in us, a successful IRS challenge could result in this subsidiary having more tax liability than we anticipate and, therefore, reduce the cash available for distribution to our partnership and, in turn, to you.

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between us and our public Unitholders. The IRS may challenge this treatment, which could adversely affect the value of our Common Units.

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to such assets to the capital accounts of our Unitholders and our General Partner. Although we may from time to time consult with professional appraisers regarding valuation matters, including the valuation of our assets, we make many of the fair market value estimates of our assets ourselves using a methodology based on the market value of our Common Units as a means to measure the fair market value of our assets. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain Unitholders and our General Partner, which may be unfavorable to such Unitholders. Moreover, under our current valuation methods, subsequent purchasers of our Common Units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between our General Partner and certain of our Unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our Unitholders. It also could affect the amount of gain on the sale of Common Units by our Unitholders and could have a negative impact on the value of our Common Units or result in audit adjustments to the tax returns of our Unitholders without the benefit of additional deductions.

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The sale or exchange of 50% or more of our capital and profit interests during any twelve month period will result in the termination of our partnership for federal income tax purposes.

Our partnership will be considered to have terminated for federal income tax purposes if transfers of units within a twelve month period constitute the sale or exchange of 50% or more of our capital and profit interests. In order to determine whether a sale or exchange of 50% or more of capital and profits interests has occurred, we review information available to us regarding transactions involving transfers of our units, including reported transfers of units by our affiliates and sales of units pursuant to trading activity in the public markets; however, the information we are able to obtain is generally not sufficient to make a definitive determination, on a current basis, of whether there have been sales and exchanges of 50% or more of our capital and profits interests within the prior twelve month period, and we may not have all of the information necessary to make this determination until several months following the time of the transfers that would cause the 50% threshold to be exceeded.

Based on the information currently available to us, we believe that we exceeded the 50% threshold on May 7, 2007, and, as a result, we have determined that our partnership has terminated for federal tax income purposes on that date. This termination does not affect our classification as a partnership for federal income tax purposes or otherwise affect the nature or extent of our qualifying income for federal income tax purposes. This termination will require us to close our taxable year, make new elections as to various tax matters and reset the depreciation schedule for our depreciable assets for federal income tax purposes. The resetting of our depreciation schedule will result in a deferral of the depreciation deductions allowable in computing the taxable income allocated to our Unitholders. However, certain elections we will make in connection with this tax termination will allow us to utilize deductions for the amortization of certain intangible assets for purposes of computing the taxable income allocable to certain of our Unitholders, which deductions had not previously been utilized in computing taxable income allocable to our Unitholders. As a consequence of these factors, we currently estimate, based on our current distribution levels and various assumptions regarding our gross income and capital expenditures during these respective periods, that a recent purchaser of units would be allocated taxable income of between 10% and 20% of the cash expected to be distributed to such Unitholder for the 2007 calendar year and less than 10% of the cash expected to be distributed to such Unitholder for the 2008 calendar year. We estimate, based on the same assumptions, that a Unitholder who purchased units prior to our combination with Heritage Propane, L.P. in January 2004 would be allocated taxable income of approximately 90% of the cash distributed to him for the 2007 calendar year and approximately 50% of the cash distributed to him for the 2008 calendar year. Beginning in 2008, we estimate, based on the same assumptions, that a new purchaser of our units, and current Unitholders who purchased our units more recently, would be allocated taxable income of less than 10% of the cash distributed to them for the 2008 calendar year. In the case of a Unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than twelve months of our income or loss being includable in their taxable income for the year of termination.

You will likely be subject to state and local taxes and return filing requirements in states where you do not live as a result of investing in our Common Units.

In addition to federal income taxes, the Unitholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if they do not live in any of those jurisdictions. Unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of the jurisdictions. Further, Unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Unitholder to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Substantially all of our pipelines, which are located in Arizona, New Mexico, Colorado, Utah, Texas and Louisiana, are constructed on rights-of-way granted by the apparent record owners of the property. Lands over which

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pipeline rights-of-way have been obtained may be subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained, where necessary, easement agreements from public authorities and railroad companies to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, railroad properties and state highways, as applicable. In some cases, properties on which our pipelines were built were purchased in fee.

Some of the leases, easements, rights-of-way, permits, licenses and franchise ordinances that will be transferred to us will require the consent of the current landowner to transfer these rights, which in some instances is a governmental entity. We believe that we have obtained or will obtain sufficient third-party consents, permits and authorizations for the transfer of the assets necessary for us to operate our business in all material respects. With respect to any consents, permits or authorizations that have not been obtained, we believe that these consents, permits or authorizations will be obtained, or that the failure to obtain these consents, permits or authorizations will have no material adverse effect on the operation of our business.

We own one office building for our executive office in Dallas, Texas and one office building in Helena, Montana for the administration of our propane operations. We also lease office facilities in Houston, Texas, San Antonio, Texas, Florence, Kentucky, Tulsa, Oklahoma, and Denver, Colorado. While we may require additional office space as our business expands, we believe that our existing facilities are adequate to meet our needs for the immediate future, and that additional facilities will be available on commercially reasonable terms as needed.

We operate bulk storage facilities at approximately 440 customer service locations for our propane operations. We own substantially all of these facilities and have entered into long-term leases for those that we do not own. We believe that the increasing difficulty associated with obtaining permits for new propane distribution locations makes our high level of site ownership and control a competitive advantage. We own approximately 48.0 million gallons of aboveground storage capacity at our various propane plant sites and have leased an aggregate of approximately 31 million gallons of underground storage facilities in Michigan, Arizona, New Mexico and Texas and smaller storage facilities in other locations. We do not own or operate any underground propane storage facilities (excluding customer and local distribution tanks) or propane pipeline transportation assets (other than local delivery systems).

The transportation of propane requires specialized equipment. The trucks and railroad tank cars used for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of August 31, 2007, we utilized approximately 60 transport truck tractors, 60 transport trailers, 20 railroad tank cars, 1,700 bobtails and 2,700 other delivery and service vehicles, all of which we own. As of August 31, 2007, we owned approximately 1,130,000 customer storage tanks with typical capacities of 120 to 1,000 gallons that are leased or available for lease to customers. HOLP s customer storage tanks are pledged as collateral to secure the obligations of HOLP to its banks and the holders of its notes.

We utilize a variety of trademarks and trade names in our propane operations that we own or have secured the right to use, including Heritage Propane and Titan Propane. These trademarks and trade names have been registered or are pending registration before the United States Patent and Trademark Office or the various jurisdictions in which the trademarks or trade names are used. We believe that our strategy of retaining the names of the companies we have acquired has maintained the local identification of these companies and has been important to the continued success of these businesses. Some of our most significant trade names include Balgas, Bi-State Propane, Blue Flame Gas of Charleston, Blue Flame Gas of Mt. Pleasant, Blue Flame Gas, Carolane Propane Gas, Gas Service Company, EnergyNorth Propane, Gibson Propane, Guilford Gas, Holton s L.P. Gas, Ikard & Newsom, Northern Energy, Sawyer Gas, ProFlame, Rural Bottled Gas and Appliance, ServiGas, V-1 Propane, Coast Gas, Empiregas, Flame Propane, Graves Propane, Synergy Gas. We regard our trademarks, trade names and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products.

We believe that we have satisfactory title to or valid rights to use all of our material properties. Although some of our properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements and immaterial encumbrances, easements and restrictions, we do not believe that any such burdens will materially interfere with our continued use of such properties in our business, taken as a whole. In addition, we believe that we have, or are in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and have obtained or made all required material registrations, qualifications and filings with, the various state and local government and regulatory authorities which relate to ownership of our properties or the operations of our business.

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ITEM 3. LEGAL PROCEEDINGS

We are not aware of any material legal or governmental proceedings against our Operating Partnerships, or contemplated to be brought against our Operating Partnerships, under the various environmental protection statutes to which they are subject.

FERC/CFTC and Related Matters. On July 26, 2007, the Federal Energy Regulatory Commission (the FERC) issued to us an Order to Show Cause and Notice of Proposed Penalties (the Order and Notice) that contains allegations that we violated FERC rules and regulations. The FERC has alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other dates from December 2003 through August 2005, in order to benefit financially from our commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC has alleged that during these periods we violated the FERC s then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by FERC under authority of the Natural Gas Act (NGA). We allegedly violated this rule by artificially suppressing prices that were included in the Platts *Inside FERC* Houston Ship Channel index, published by McGraw-Hill Companies, on which the pricing of many physical natural gas contracts and financial derivatives are based. Additionally, the FERC has alleged that we manipulated daily prices at the Waha Hub and the Katy Hub near Houston, Texas. Our Oasis pipeline transports interstate natural gas pursuant to Natural Gas Policy Act (NGPA) Section 311 authority and is subject to FERC-approved rates, terms and conditions of service. The allegations related to the Oasis pipeline include claims that the Oasis pipeline violated NGPA regulations from January 26, 2004 through June 30, 2006 by granting undue preference to its affiliates for interstate NGPA Section 311 pipeline service to the detriment of similarly situated non-affiliated shippers and by charging in excess of the FERC-approved maximum lawful rate for interstate NGPA Section 311 transportation. The FERC also seeks to revoke, for a period of 12 months, our blanket marketing authority for sales of natural gas in interstate commerce at negotiated rates, which activity is expected to account for approximately 1.0% of our operating income for our 2007 fiscal year. If the FERC is successful in revoking our blanket marketing authority, our sales of natural gas at market-based rates would be limited to sales of natural gas to retail customers (such as utilities and other end users) and sales from our own production, and any other sales of natural gas by us would be required to be made at prices that would be subject to the FERC approval. Also on July 26, 2007, the United States Commodity Futures Trading Commission (the CFTC) filed suit in United States District Court for the Northern District of Texas alleging that we violated provisions of the Commodity Exchange Act by attempting to manipulate natural gas prices in the Houston Ship Channel. It is alleged that such manipulation was attempted during the period from late September through early December 2005 to allow us to benefit financially from our commodities derivatives positions.

In its Order and Notice, the FERC is seeking $70.1 million in disgorgement of profits, plus interest, and $97.5 million in civil penalties relating to these matters. ETP filed its response to the Order and Notice with the FERC on October 9, 2007, which response refuted the FERC s claims and requested a dismissal of the FERC proceeding. The FERC has taken the position that, once it receives our response, it has several options as to how to proceed, including issuing an order on the merits, requesting briefs, or setting specified issues for a trial-type hearing before an administrative law judge. In its lawsuit, the CFTC is seeking civil penalties of $130,000 per violation, or three times the profit gained from each violation, and other ancillary relief. The CFTC has not specified the number of alleged violations or the amount of alleged profit related to the matters specified in its complaint. On October 15, 2007, ETP filed a motion to dismiss in the United State District Court for the Northern District of Texas on the basis that the CFTC has not stated a valid cause of action under the Commodity Exchange Act.

It is our position that our trading and transportation activities during the periods at issue complied in all material aspects with applicable law and regulations, and we intend to contest these cases vigorously. However, the laws and regulations related to alleged market manipulation are vague, subject to broad interpretation, and offer little guiding precedent, while at the same time the FERC and CFTC hold substantial enforcement authority. At this time, we are unable to predict the final outcome of these matters.

In addition to the FERC and CFTC legal actions, it is also possible that third parties will assert claims against us for damages related to these matters, which parties could include natural gas producers, royalty owners, taxing authorities, and parties to physical natural gas contracts and financial derivatives based on the Platts *Inside FERC* Houston Ship Channel index during the periods in question. In this regard, two natural gas producers have initiated legal proceedings against us, one of which is seeking an unspecified amount of direct, indirect, consequential and punitive damages for alleged manipulation of natural gas prices at the Waha Hub in West Texas and the other is seeking to obtain discovery of information related to our activities prior to further pursuing a claim for manipulation of natural gas prices in the

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Houston Ship Channel. In addition, a plaintiff has filed a putative class action which purports to be brought on behalf of natural gas traders who purchased and/or sold natural gas futures and options on the New York Stock Mercantile Exchange between December 29, 2003 and December 31, 2005.

We are expensing the legal fees, consultants fees and related expenses relating to these matters in the periods in which such expenses are incurred. In addition, our existing accruals for litigation and contingencies include an accrual related to these matters. At this time, we are unable to predict the outcome of these matters; however, it is possible that the amount we become obliged to pay as a result of the final resolution of these matters, whether on a negotiated settlement basis or otherwise, will exceed the amount of our existing accrual related to these matters. In accordance with applicable accounting standards, we will review the amount of our accrual related to these matters as developments related to these matters occur and we will adjust our accrual if we determine that it is probable that the amount we may ultimately become obliged to pay as a result of the final resolution of these matters is greater than the amount of our existing accrual for these matters. As our accrual amounts are non-cash, any cash payment of an amount in resolution of these matters would likely be made from cash from operations or borrowings, which payments would reduce our cash available for distributions either directly or as a result of increased principal and interest payments necessary to service any borrowings incurred to finance such payments. If these payments are substantial, we may experience a material adverse impact on our results of operations, cash available for distribution and our liquidity.

In re Natural Gas Royalties Qui Tam Litigation. MDL Docket No. 1293 (D. WY), Jack Grynberg, an individual, has filed actions against a number of companies, including Transwestern, now transferred to the U.S. District Court for the District of Wyoming, for damages for mis-measurement of gas volumes and Btu content, resulting in lower royalties to mineral interest owners. On October 20, 2006, the District Judge adopted in part the earlier recommendation of the Special Master in the case and ordered the dismissal of the case against Transwestern. Transwestern believes that its measurement practices conformed to the terms of its FERC Gas Tariffs, which were filed with and approved by the FERC. As a result, Transwestern believes that it has meritorious defenses to these lawsuits (including FERC-related affirmative defenses, such as the filed rate/tariff doctrine, the primary/exclusive jurisdiction of FERC, and the defense that Transwestern complied with the terms of its tariffs) and will continue to vigorously defend against them, including any appeal which may be taken from the dismissal of the Grynberg case. Transwestern does not believe the outcome of this case will have a material adverse effect on its financial position, results of operations or cash flows. A hearing was held on April 24, 2007 regarding Transwestern s Supplemental Brief for Attorneys fees which was filed on January 8, 2007 and the issues are submitted and are awaiting a decision. Grynberg moved to have the cases he appealed remanded to the district court for consideration in light of a recently-issued Supreme Court case. The defendants/appellees opposed the motion. The Tenth Circuit motions panel referred the remand motion to the merits panel to be carried with the appeals. Grynberg s opening brief was due July 31, 2007. Appellee s opposition brief is due November 21, 2007.

Transwestern Trespass Actions. Transwestern is managing one threatened trespass action related to right of way (ROW) on Tribal or allottee land. The threatened action concerns 5,100 feet of ROW on private allotments within the Laguna Pueblo that expired on December 28, 2002. Transwestern received a letter dated March 19, 2003 from the United States Department of the Interior, Bureau of Indian Affairs (BIA) on behalf of the two allottees asserting trespass. Transwestern s legal exposure related to this matter is not currently determinable. Negotiations are ongoing on this matter.

Another action involves an agreement with the BIA covering 44 miles of ROW on a total of 68 Navajo allotments. This ROW agreement expired on January 1, 2004. One allottee sent a letter dated January 16, 2004 to the BIA claiming Transwestern trespassed and that allotee s claim of trespass has been settled and his consent to use the property has been acquired. Transwestern filed a renewal application with the BIA during October 2002, and has received two grants from the BIA for allotted lands in New Mexico and Arizona, which are effective through December 31, 2023.

Houston Pipeline Cushion Gas Litigation. At the time of the HPL System acquisition, AEP Energy Services Gas Holding Company II, L.L.C., HPL Consolidation LP and its subsidiaries (the HPL Entities), their parent companies, and American Electric Power Corporation (AEP), were engaged in ongoing litigation with Bank of America (B of A) that related to AEP s acquisition of HPL in the Enron bankruptcy and B of A s financing of cushion gas stored in the Bammel storage facility (Cushion Gas). At issue are matters relating to the ownership and certain rights to use the Cushion Gas. This litigation is referred to as the Cushion Gas Litigation . Under the terms of the Purchase and Sale Agreement and the related Cushion Gas Litigation Agreement, AEP and its subsidiaries that were the sellers of the HPL Entities retained control of the Cushion Gas Litigation and have agreed to indemnify ETC OLP and the HPL Entities for any damages arising from the Cushion Gas Litigation and the loss of use of the Cushion Gas, up to a maximum of the amount paid by ETC OLP for the HPL Entities and the working gas inventory. The Cushion Gas

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Litigation Agreement terminates upon final resolution of the Cushion Gas Litigation. In addition, under the terms of the Purchase and Sale Agreement, AEP retained control of additional matters relating to ongoing litigation and environmental remediation and agreed to bear the costs of or indemnify ETC OLP and the HPL Entities for the costs related to such matters.

Other Matters. In addition to those matters described above, we or our subsidiaries are a party to various legal proceedings and/or regulatory proceedings incidental to our businesses. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. Although any litigation is inherently uncertain, for each of these matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, the likelihood of an unfavorable outcome and the availability of insurance coverage. If we determine that an unfavorable outcome of a particular matter is probable, can be estimated and is not covered by insurance, we make an accrual for the matter. For matters that are covered by insurance, we accrue the related deductible. As new information becomes available, our estimates may change. The impact of these changes may have a significant effect on our results of operations in a single period.

The outcome of these matters cannot be predicted with certainty and it is possible that the outcome of a particular matter will result in the payment of an amount in excess of the amount accrued for the matter. As our accrual amounts are non-cash, any cash payment of an amount in resolution of a particular matter would likely be made from cash from operations or borrowings. If cash payments to resolve a particular matter substantially exceed our accrual for such matter, we may experience a material adverse impact on our results of operations, cash available for distribution and our liquidity.

As of August 31, 2007 and 2006, an accrual of $30.3 million and $32.1 million, respectively, was recorded as accrued and other current liabilities on our consolidated balance sheets for our contingencies and current litigation matters, excluding accruals related to environmental matters. (See Note 9 to our consolidated financial statements.)

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None during the quarter ended August 31, 2007. See Note 6 to our consolidated financial statements.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON UNITS, RELATED UNITHOLDER

MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of and Distributions on the Common Units and Related Unitholder Matters

Our Common Units are listed on the New York Stock Exchange under the symbol ETP . The following table sets forth, for the periods indicated, the high and low sales prices per Common Unit, as reported on the New York Stock Exchange Composite Tape, and the amount of cash distributions paid per Common Unit for the periods indicated.

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	Price Range High	Price Range Low	Cash Distribution (1)
Fiscal Year 2007			
Fourth Quarter Ended August 31, 2007	$ 64.00	$ 40.50	$ 0.82500
Third Quarter Ended May 31, 2007	$ 63.40	$ 54.76	$ 0.80625
Second Quarter Ended February 28, 2007	$ 56.00	$ 49.23	$ 0.78750
First Quarter Ended November 30, 2006	$ 54.64	$ 43.60	$ 0.76875

	Price Range High	Price Range Low	Cash Distribution (1)
Fiscal Year 2006			
Fourth Quarter Ended August 31, 2006	$ 48.00	$ 42.02	$ 0.75000
Third Quarter Ended May 31, 2006	$ 45.85	$ 35.31	$ 0.63750
Second Quarter Ended February 28, 2006	$ 37.98	$ 33.55	$ 0.58750
First Quarter Ended November 30, 2005	$ 37.72	$ 30.53	$ 0.55000

(1) Distributions are shown in the quarter with respect to which they relate. For each of the indicated quarters for which distributions have been made, an identical per unit cash distribution was paid on any units subordinated to our Common Units outstanding at such time. Please see Cash Distribution Policy for a discussion of our policy regarding the payment of distributions.

On June 20, 2006, we declared a special distribution of $0.0325 per Common and Class F Unit related to the proceeds received by the Partnership in connection with the SCANA litigation settlement (see Notes 6 and 9 to the consolidated financial statements) which was paid on July 14, 2006 to the holders of record of the Partnership s Common and Class F Units as of the close of business on June 30, 2006. In connection with this distribution, we also declared and made a $3.6 million distribution to the holder of our Class C Units, which amount represents the amount that would have otherwise distributed to our General Partner.

Description of Units

As of September 1, 2007, there were approximately 77,443 individual Common Unitholders, which includes Common Units held in street name. Our Common Units represent limited partner interests in our Amended and Restated Agreement of Limited Partnership, as amended to date (the Partnership Agreement) that entitle the holders to the rights and privileges specified in the Partnership Agreement.

Common Units. As of August 31, 2007, we had 136,981,221 Common Units outstanding, of which 73,383,908 were held by the public, 62,500,797 were held by ETE or its affiliates, 1,308 were held by FHM Investments, L.L.C., and 1,095,208 were held by our officers and directors. As of such date, the Common Units represent an aggregate 98.0% limited partner interest in us. Our General Partner owns an aggregate 2.0% general partner interest in us. Our Common Units are registered under the Securities Exchange Act of 1934, as amended and are listed for trading on the New York Stock Exchange (the NYSE). The Common Units are entitled to distributions of Available Cash as described below under Cash Distribution Policy.

Class E Units. In conjunction with our purchase of the capital stock of Heritage Holdings in January 2004, the 4,426,916 Common Units held by Heritage Holdings were converted into 4,426,916 Class E Units. Pursuant to our two-for-one unit split completed on March 15, 2005, there are currently 8,853,832 Class E Units outstanding, all of which are owned by Heritage Holdings. The Class E Units generally do not have any voting rights. These Class E Units are entitled to aggregate cash distributions equal to 11.1% of the total amount of cash distributed to all Unitholders, including the Class E Unitholders, up to $1.41 per unit per year. Management plans to leave the Class E Units outstanding indefinitely.

Incentive Distribution Rights. Incentive Distribution Rights represent the contractual right to receive a specified percentage of quarterly distributions of Available Cash from operating surplus after the minimum quarterly distribution has been paid. Please read Distributions of Available Cash from Operating Surplus below.

Cash Distribution Policy

General. We will distribute all of our Available Cash to our Unitholders and our General Partner within 45 days following the end of each fiscal quarter.

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Definition of Available Cash. Available Cash is defined in our Partnership Agreement and generally means, with respect to any calendar quarter, all cash on hand at the end of such quarter:

Less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the General Partner to:

provide for the proper conduct of our business;

comply with applicable law or and debt instrument or other agreement (including reserves for future capital expenditures and for our future capital needs); or

provide funds for distributions to Unitholders and our General Partner in respect of any one or more of the next four quarters.

Plus all cash on hand on the date of determination of Available Cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit facilities and in all cases are used solely for working capital purposes or to pay distributions to partners.

Available Cash is more fully defined in our partnership agreement previously incorporated by reference as an exhibit to this report.

Operating Surplus and Capital Surplus

General. All cash distributed to our Unitholders is characterized as either operating surplus or capital surplus . We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. Our operating surplus for any period generally means:

our cash balance on the closing date of our initial public offering in 1996; plus

$10.0 million (as described below); plus

all of our cash receipts since the closing of our initial public offering, excluding cash from interim capital transactions such as borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus

our working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures after the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less the amount of our cash reserves that our General Partner deems necessary or advisable to provide funds for future operating expenditures.

Definition of Capital Surplus. Generally, our capital surplus will be generated only by:

- borrowings other than working capital borrowings;
- sales of our debt and equity securities; and
- sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all Available Cash distributed as coming from operating surplus until the sum of all Available Cash distributed since we began operations equals the operating surplus as of the most recent date of determination of Available Cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As defined in our Partnership Agreement, operating surplus includes $10.0 million in addition to our cash balance on the closing date of our initial public offering, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand that is available for distribution to our Unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating

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surplus up to $50.0 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities, and long-term borrowings, that would otherwise be distributed as capital surplus. We have not made, and we anticipate that we will not make, any distributions from capital surplus.

Distributions of Available Cash from Operating Surplus

We are required to make distributions of Available Cash from operating surplus for any quarter in the following manner:

First, 98% to all Common and Class E Unitholders, in accordance with their percentage interests, and 2% to the General Partner, until each Common Unit has received $0.25 per unit for such quarter (the minimum quarterly distribution);

Second, 98% to all Common and Class E Unitholders, in accordance with their percentage interests, and 2% to the General Partner, until each Common Unit has received $0.275 per unit for such quarter (the first target cash distribution);

Third, 85% to all Common and Class E Unitholders, in accordance with their percentage interests, 13% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner, until each Common Unit has received at least $0.3175 per unit for such quarter (the second target cash distribution);

Fourth, 75% to all Common and Class E Unitholders, in accordance with their percentage interests, 23% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner, until each Common Unit has received at least $0.4125 per unit for such quarter (the third target cash distribution); and

Fifth, thereafter, 50% to all Common and Class E Unitholders, in accordance with their percentage interests, 48% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner.

Notwithstanding the foregoing, any arrearage in the payment of the minimum quarterly distribution for all prior quarters and the distributions on each Class E unit may not exceed $1.41 per year.

Distributions of Available Cash from Capital Surplus

We will make distributions of available cash from capital surplus, if any, in the following manner:

First , 98% to all of our Unitholders, pro rata, and 2% to our General Partner, until we distribute for each Common Unit, an amount of available cash from capital surplus equal to our initial public offering price; and

Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Our Partnership Agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price per Common Unit less any distributions of capital surplus per unit is referred to as the unrecovered capital .

If we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust our minimum quarterly distribution; our target cash distribution levels; and our unrecovered capital.

For example, if a two-for-one split of our Common Units should occur our unrecovered capital would each be reduced to 50% of our initial level. We will not make any adjustment by reason of our issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce our minimum quarterly distribution and the target cash distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates.

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The total amount of distributions declared during the years ended August 31, 2007 and 2006 is as follows:

	2007	2006
Limited Partners -		
Common Units	$ 366,180	$ 248,237
Class C Units		3,599
Class F Units		3,232
Class G Units	40,598	
General Partners -		
2% Ownership	12,701	6,981
Incentive Distribution Rights	203,069	81,722
	$ 622,548	$ 343,771

All distributions were made from Available Cash from the Partnership s operating surplus.

Securities Authorized for Issuance Under Equity Compensation Plans

Please see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters of this annual report.

Changes in Securities and Recent Sales of Unregistered Securities

None during the quarter ended August 31, 2007. See Note 6 to our consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA

In January 2004, we combined the natural gas midstream and transportation operations of ETC OLP with the retail propane operations of Heritage Propane Partners, L.P. (Heritage)(the Energy Transfer Transactions). In March 2004, Heritage changed its name to Energy Transfer Partners, L.P. Although Heritage was the surviving parent entity for legal purposes in the Energy Transfer Transactions, ETC OLP was the acquirer for accounting purposes. As a result, following the Energy Transfer Transactions in January 2004, the historical financial statements of ETC OLP for periods prior to the closing of the Energy Transfer Transactions became our historical financial statements. ETC OLP was formed on October 1, 2002 and has an August 31 year-end. ETC OLP s predecessor entities had a December 31 year-end.

In April 2005, we sold the Elk City System and accounted for the sale as discontinued operations. As such, the results presented for the eleven months ended August 31, 2003 and the year ended August 31, 2004 below have been restated to report the results of the Elk City System as discontinued operations.

The selected historical financial data should be read in conjunction with the financial statements of Energy Transfer Partners, L.P. included elsewhere in this report and with Management s Discussion and Analysis of Financial Condition and Results of Operations included in this report. The amounts in the table below, except per unit data, are in thousands.

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	2007	Year Ended August 31, 2006	2005	2004	Eleven Months Ended August 31, 2003 (a)
Statement of Operations Data:					
Revenues:					
Midstream segment	$ 2,853,496	$ 4,223,544	$ 3,246,772	$ 1,880,663	$ 899,086
Intrastate transportation and storage segment	3,915,932	5,013,224	2,608,108	113,938	41,500
Interstate transportation segment	178,663				
Eliminations	(1,562,199)	(2,359,256)	(471,255)	(27,798)	(9,559)
Retail propane segment	1,284,867	879,556	709,473	349,344	
Other	121,278	102,028	75,700	30,810	
Total revenues	6,792,037	7,859,096	6,168,798	2,346,957	931,027
Gross margin	1,713,831	1,290,780	787,283	365,533	105,589
Depreciation and amortization	179,162	117,415	92,943	48,599	11,870
Operating income	829,652	642,871	312,051	139,089	55,595
Interest expense	175,563	113,857	93,017	41,190	12,456
Income from continuing operations before income tax expense	689,797	541,772	208,678	97,470	45,063
Income tax expense (b)	13,658	25,920	7,295	4,481	4,432
Income from continuing operations	676,139	515,852	201,383	92,989	40,631
Basic income from continuing operations per unit (c)	3.32	3.16	1.51	1.62	3.01
Diluted income from continuing operations per limited partner unit (c)	3.31	3.15	1.50	1.62	3.01
Cash distribution per unit (d)	3.19	2.56	1.89	1.46	
Balance Sheet Data (at period end):					
Current assets	1,041,093	1,301,804	1,446,572	480,435	223,897
Total assets	7,708,428	5,455,013	4,415,458	2,327,104	602,103
Current liabilities	924,217	1,016,490	1,239,426	397,037	169,473
Long-term debt	3,626,977	2,589,124	1,675,705	1,070,871	196,000
Partners capital/Stockholders equity	3,039,833	1,736,862	1,326,192	746,980	181,088
Other Financial Data:					
Cash flow provided by operating activities	1,112,732	543,884	169,418	162,695	70,206
Cash flow used in investing activities	(2,158,090)	(1,244,406)	(1,133,749)	(790,737)	(341,258)
Cash flow provided by financing activities	1,088,022	701,649	907,500	656,665	324,174
Capital expenditures:					
Maintenance (accrual basis)	89,226	51,826	41,054	22,514	7,691
Growth (accrual basis)	998,075	677,861	155,405	87,174	4,223
Acquisition	90,695	586,185	1,131,844	681,835	340,187

(a) On December 27, 2002, ETC OLP purchased the remaining 50% of Oasis Pipe Line. Prior to December 27, 2002, the interest in Oasis Pipe Line was treated as an equity method investment. After such date, Oasis Pipe Line s results of operations are consolidated with ETC OLP as a wholly-owned subsidiary.

(b) As a partnership, we are not subject to income taxes. However, our subsidiaries, Oasis Pipe Line, Heritage Holdings, Heritage Service Corporation, and Titan Propane Services, Inc. are corporations subject to income taxes.

(c) See Note 4 to our consolidated financial statements for a discussion of the computation of earnings per unit.

(d) The cash distribution per unit for fiscal year 2006 includes the Special SCANA distribution of $0.0325 per unit discussed in Notes 6 and 9 of our consolidated financial statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following is a discussion of our historical consolidated financial condition and results of operations, and should be read in conjunction with our historical consolidated financial statements and accompanying notes thereto included in Item 8 of this report. Our Management s Discussion and Analysis includes forward-looking statements that are subject to risk and uncertainties. Actual results may differ substantially from the statements we make in this section due to a number of factors that are discussed in Item 1A Risk Factors included in this report.

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Overview

General

Our business activities are primarily conducted through our Operating Partnerships. The Partnership and the Operating Partnerships are sometimes referred to collectively in this report as we , us , Energy Transfer or ETP .

Our primary objective is to increase the level of our cash distributions over time by pursuing a business strategy that is currently focused on growing our natural gas midstream and transportation and storage businesses (including transportation, gathering, compression, treating, processing, storage and marketing) and our propane business through, among other things, pursuing certain construction and expansion opportunities relating to our existing infrastructure and acquiring certain additional businesses or assets. The actual amount of cash that we will have available for distribution will primarily depend on the amount of cash we generate from operations.

During the past several years we have been successful in completing several transactions that have been accretive to our Unitholders. First and foremost was the completion of the Energy Transfer Transactions, which was the combination of the retail propane operations of Heritage and the midstream and intrastate transportation and storage operations of ETC OLP in January 2004. Subsequent to the combination we have made numerous significant acquisitions in both our natural gas and propane operations, most notably the following:

- ET Fuel System in June 2004
- HPL System in January 2005
- Titan Propane in June 2006
- Transwestern in December 2006

Concurrently, we have also made significant investments in internal growth projects which we believe will provide additional cash flow to our Unitholders in years to come.

Our principal operations are conducted in the following significant segments:

- Midstream
- Intrastate transportation and storage
- Interstate transportation
- Retail propane

Summary of Operating Financial Performance in fiscal 2007

Our midstream and propane operations are primarily margin-driven businesses, while our transportation and storage operations are primarily fee-driven businesses. Thus, our results are significantly impacted by the margins we realize and the volumes we sell, transport and store, and to a lesser extent, commodity prices. Our fiscal year 2007 results were significantly impacted by our Transwestern acquisition in December 2006 and our Titan acquisition in fiscal year 2006.

The fiscal 2007 year proved to be a challenging year for us. However, despite delays in certain of our major projects and the milder summer months in 2007, particularly in the southern portion of the United States, our management team and assets delivered another strong earnings performance for the year ended August 31, 2007 with $1.7 billion in gross margin and $829.7 million in operating income. In addition to the increased income generated from the Transwestern and Titan acquisitions, we also experienced increased volumes in our natural gas operations and better than expected processing margins throughout the fiscal year. We were also able to withdraw more working natural gas inventories from our Bammel storage facility resulting in increased margins, principally during the three months ended August 31, 2007.

Despite the warmer than normal winter, our propane operations were able to deliver higher than expected results. Our retail volumes increased as a result of acquisitions during fiscal year 2007 and the Titan and other acquisitions during

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fiscal year 2006 which offset the decrease in volumes we experienced due to the warmer weather. We also were able to increase our sales prices which improved our gross margins. Additionally, due to the acquisitions we made during fiscal years 2007 and 2006, our other propane segment revenues, such as appliance sales, labor and tank rentals, also improved over prior years.

We also completed several growth capital projects during the fiscal year ended August 31, 2007 including the Cleburne to Carthage pipeline that extends from Cleburne, Texas to the Carthage Hub in East Texas and the Godley plant. In addition to our internal growth projects we also continued to integrate the Titan operations that were acquired in June 2006 and successfully completed the acquisition of the Transwestern pipeline in a two-step process in December 2006. The Transwestern pipeline is the first FERC-regulated pipeline for the Partnership.

In addition, we continued to secure long-term financing for ETP. We successfully raised $800 million in long-term debt with interest rates ranging from 6.125% to 6.625% and maturities ranging from 10 to 30 years. We also received proceeds of $1.2 billion from the sale of our Common Units during the year ended August 31, 2007. These proceeds were used principally to finance the Transwestern acquisition and to repay indebtedness incurred with the Titan acquisition which closed in June 2006. We also increased our borrowing capacity on our revolving credit facility in June 2007 from $1.5 billion to $2.0 billion (with an option to increase to $3.0 billion). The increased capacity will provide us with the liquidity needed to complete our previously announced expansion projects.

Trends and Outlook

Looking to fiscal 2008, we believe our operations are positioned to provide increasing operating results based on the current levels of contracted and expected capacity to be taken by our customers, our expansion activity completed during fiscal year 2007, additional capacity resulting from pipeline projects expected to be completed within the next twelve to eighteen months (see Item 1 above), and incremental earnings related to the recently acquired Transwestern pipeline. In addition, we recently acquired the Canyon Gathering System in the Uinta-Piceance basins of Utah and Colorado which will provide for continued expansion into natural gas producing regions of the United States.

Analytical Analysis

The following is a discussion of our historical financial condition and results of operations, and should be read in conjunction with our historical consolidated financial statements and accompanying notes thereto included in Item 8 of this Form 10-K.

The comparability of our consolidated financial statements is affected by our 100% acquisition of Transwestern on December 1, 2006 (and our purchase of 50% of CCEH in November 2006), our purchase of Titan in June 2006 and the HPL System in January 2005 and the sale of ETC Oklahoma (Elk City) in April 2005. See Note 2 to our consolidated financial statements for a detailed discussion of our significant acquisitions and dispositions during fiscal years 2007, 2006 and 2005. The comparability is also affected by fluctuation in natural gas prices, mainly in our producer services gas sales and purchases and natural gas sales and purchases on our HPL System. Since we buy and sell natural gas primarily based on either first of month index prices, gas daily average prices or a combination of both, our gas sales and purchases tend to be higher when natural gas prices are high and our gas sales and purchases tend to be lower when natural gas prices are lower. However, a change in natural gas prices is only one of several elements that impact our overall margin. Other factors include, but are not limited to, volumetric changes, our hedging strategies and the use of financial instruments, fee-based revenues, trading activities, and basis differences between market hubs.

The acquisition of Transwestern resulted in a significant increase in our property, plant and equipment, intangible assets and goodwill from August 31, 2006 to August 31, 2007 (see Note 2 to the consolidated financial statements). The increase from August 31, 2006 to August 31, 2007 in our long-term debt was also due to debt issued in connection with and debt assumed in the Transwestern acquisition and approximately $1.0 billion in growth capital expenditures incurred during the year ended August 31, 2007.

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Analysis of Operating Data - Volumes

Midstream

	Years Ended August 31,		
	2007	2006	2005
Natural gas MMBtu/d	941,140	1,552,753	1,578,833
NGLs Bbls/d	25,657	10,425	12,707

For the year ended August 31, 2007, the decrease in natural gas volumes sold was principally due to less favorable market conditions during fiscal 2007 and increased utilization of capacity on our transportation pipelines by third parties resulting in lower sales volumes conducted by our producer services operations. The increase in NGL sales volumes was principally due to the completion of our Godley plant during 2007 and favorable market conditions to process and extract NGLs during fiscal 2007 compared to the same period last year.

For the year ended August 31, 2006, natural gas sales volumes decreased compared to the year ended August 31, 2005 principally due to less marketing activity by our producer services operations towards the latter half of fiscal year 2006 and a change in contract mix with one of our major producers where we now charge a fee to gather, process and transport natural gas rather than buying and selling the natural gas on our behalf. Our NGL sales volumes vary due to our ability to by-pass our processing plants when conditions exist that make it less favorable to process and extract NGLs from our processing plants. The decrease in NGL sales volumes is principally due to a change in contract mix as noted above and the election to by-pass our processing plant as a result of less favorable market conditions during the second fiscal quarter of the year ended August 31, 2006.

Intrastate Transportation and Storage

	Years Ended August 31,		
	2007	2006	2005
Natural gas MMBtu/d transported	6,124,423	4,633,069	3,495,434
Natural gas MMBtu/d sold	1,400,753	1,580,638	1,361,729

For the year ended August 31, 2007, transported natural gas volumes increased due to our continued efforts to secure more long-term shipper contracts, the completion of the Cleburne to Carthage pipeline, and increased demand to transport gas out of the Barnett Shale and Bossier Sands producing regions. Natural gas sales volumes on the HPL System for the year ended August 31, 2007 decreased principally due to less volumes sold to east Texas markets as a result of lower price differentials and due to the new CenterPoint contract that commenced on April 1, 2007. Under the previous contract, we sold and delivered natural gas to CenterPoint for a bundled price. Under the terms of the new agreement, CenterPoint has contracted for 129 Bcf per year of firm transportation capacity combined with 10 Bcf of working gas capacity in our Bammel storage facility. As such, we now account for these activities as natural gas transported rather than natural gas sold.

For the year ended August 31, 2006, transported natural gas volumes increased by 1,137,635 MMBtu/d. The increase in transportation volumes is principally due to the increased volumes experienced in the Oasis pipeline, ET Fuel System and East Texas pipeline as a result of our effort to secure firm commitments on our transportation assets and a higher price differential between the Waha and Katy market hubs during the periods presented. Additionally, warmer weather during the 2006 fiscal year resulted in an increase in demand for natural gas. The higher temperatures required more demand for natural gas to be used by electricity-producing power plants connected to our assets. Natural gas sales volumes on the HPL System for the year ended August 31, 2006 increased 218,909 MMBtu/d compared to the year ended August 31, 2005, principally due to increased marketing efforts with our existing and new customers and increased well connects which has increased our supply on the HPL System.

Interstate Transportation

	Years Ended August 31,		
	2007	2006	2005
Natural gas MMBtu/d transported	1,802,109		
Natural gas MMBtu/d sold	19,680		

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The increase was due to the 100% acquisition of Transwestern on December 1, 2006.

Retail Propane

	Years Ended August 31,		
	2007	2006	2005
Retail propane gallons sold (in thousands)	604,269	429,118	406,334

The retail propane operations realized significant increases in gallons sold in the year ended August 31, 2007 as compared to the year ended August 31, 2006 (a 175.2 million net gallon increase) primarily due to the Titan acquisition in June 2006. The combination of below normal degree days, customer conservation, and the slow down of new home construction in our propane markets has contributed to a decrease in expected volumes sold and slowed internal growth. The overall weather in our areas of operations during the year ended August 31, 2007 was 10.6% warmer than the year ended August 31, 2006 and 7.2% warmer than normal.

The 22.8 million net gallon increase in retail propane gallons sold for the year ended August 31, 2006, compared to the year ended August 31, 2005, includes a 24.5 million gallon increase due to the Titan acquisition for the months of June, July and August 2006, 15.9 million gallons were added through other propane acquisitions, offset by a decrease of 17.6 million gallons related to warm weather and higher propane commodity prices. The weather in our areas of operations during the year ended August 31, 2006 was 3.5% warmer than the year ended August 31, 2005 and 10.6% warmer than normal.

Analysis of Results of Operations

In the following analysis of results of operations, tabular dollar amounts are expressed in thousands.

Consolidated Results

	Years Ended August 31,			Amount of Change	
	2007	2006	2005	2007-2006	2006-2005
Revenues	$ 6,792,037	$ 7,859,096	$ 6,168,798	$ (1,067,059)	$ 1,690,298
Cost of sales	5,078,206	6,568,316			