Energy Transfer Partners, L.P.
Form 10-Q
April 11, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended February 28, 2005

OR

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

For the Transition Period from __________ to __________

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

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

2838 Woodside Street

Dallas, Texas 75204

(Address of principal

executive offices

and zip code)

(214) 981-0700

(Registrant s telephone number, including area code)

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

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No ¨

At April 8, 2005, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 102,244,572 Common Units

FORM 10-Q

INDEX TO FINANCIAL STATEMENTS

Energy Transfer Partners, L.P. and Subsidiaries

(Formerly Energy Transfer Company and surviving legal entity in the Energy Transfer Transactions)

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Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Partners, L.P., (Energy Transfer Partners or the Partnership) in periodic press releases and some oral statements of Energy Transfer Partners officials during presentations about the Partnership, include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements using words such as anticipate, believe, intend, project, plan, continue, estimate, forecast, may, will, or similar expressions help identify forward-looking statements. Although the Partnership believes such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that every objective will be reached.

Actual results may differ materially from any results projected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks, difficult to predict, and beyond management s control. For additional discussion of risks, uncertainties and assumptions, see the Partnership s Annual Report on Form 10-K for the fiscal year ended August 31, 2004 filed with the Securities and Exchange Commission on November 15, 2004.

Definitions

The following is a list of certain acronyms and terms generally used in the energy industry and throughout this document:

/d	per day
Bbls	barrels
Btu	British thermal unit, an energy measurement
Mcf	thousand cubic feet
MMBtu	million British thermal unit
MMcf	million cubic feet
Bcf	billion cubic feet
NGL	natural gas liquid, such as propane, butane and natural gasoline
LIBOR	London Interbank Offered Rate
Nymex	New York Mercantile Exchange
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

(unaudited)

	February 28, 2005	August 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,310	$ 81,745
Marketable securities	3,690	2,464
Accounts receivable, net of allowance for doubtful accounts	691,436	275,424
Accounts receivable from related companies	3,595	34
Exchanges receivable	18,420	8,852
Inventories	156,922	53,324
Deposits paid to vendors	30,449	3,023
Price risk management assets	41,305	4,615
Prepaid expenses and other	21,379	7,401
Total current assets	994,506	436,882
PROPERTY, PLANT AND EQUIPMENT, net	2,396,100	1,467,649
LONG -TERM PRICE RISK MANAGEMENT ASSETS	21,150	
INVESTMENT IN AFFILIATES	41,145	8,010
GOODWILL	311,295	313,720
INTANGIBLES AND OTHER ASSETS, net	106,787	100,844
Total assets	$ 3,870,983	$ 2,327,105

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

(unaudited)

	February 28, 2005	August 31, 2004
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Short term debt to affiliate	$ 174,624	$
Working capital facility	41,812	14,550
Accounts payable	597,161	274,122
Accounts payable to related companies	4,517	4,276
Exchanges payable	16,397	2,846
Customer deposits	12,312	11,378
Accrued and other current liabilities	80,396	55,394
Price risk management liabilities	21,289	1,262
Income taxes payable	1,680	2,252
Current maturities of long-term debt	48,300	30,957
Total current liabilities	998,488	397,037
LONG-TERM DEBT, net of discount, less current maturities	1,567,511	1,070,871
LONG-TERM PRICE RISK MANAGEMENT LIABILITIES	19,109	
DEFERRED TAXES	111,579	109,896
OTHER NONCURRENT LIABILITIES	7,502	846
MINORITY INTERESTS	17,166	1,475
	2,721,355	1,580,125
COMMITMENTS AND CONTINGENCIES		
PARTNERS CAPITAL:		
Common Unitholders (95,577,906 and 89,118,062 units authorized, issued and outstanding at February 28, 2005 and August 31, 2004, respectively)	1,099,095	720,187
Class C Unitholders (1,000,000 units authorized, issued and outstanding at February 28, 2005 and August 31, 2004 , respectively)		
Class E Unitholders (8,853,832 authorized, issued and outstanding at February 28, 2005 and August 31, 2004, respectively held by subsidiary and reported as treasury units)		
General Partner	36,162	26,761
Accumulated other comprehensive income	14,371	32
Total partners capital	1,149,628	746,980
Total liabilities and partners capital	$ 3,870,983	$ 2,327,105

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit and unit data)

(unaudited)

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	Six Months Ended February 28, 2005	Six Months Ended February 29, 2004
		(See Note 2)		(See note 2)
REVENUES:				
Midstream and transportation	$ 1,171,257	$ 493,570	$ 1,908,407	$ 912,667
Propane	288,966	132,453	440,199	132,453
Other	20,352	8,543	39,631	8,543
Total revenues	1,480,575	634,566	2,388,237	1,053,663
COSTS AND EXPENSES:				
Cost of products sold	1,248,091	529,962	2,013,661	911,643
Operating expenses	74,664	30,131	136,125	37,517
Depreciation and amortization	22,954	9,472	43,223	13,619
Selling, general and administrative	12,762	6,382	24,072	11,261
Total costs and expenses	1,358,471	575,947	2,217,081	974,040
OPERATING INCOME	122,104	58,619	171,156	79,623
OTHER INCOME (EXPENSE):				
Interest expense	(22,930)	(8,986)	(40,261)	(12,820)
Loss on extinguishment of debt	(7,996)		(7,996)	
Equity in earnings of affiliates	109	180	145	327
Gain (loss) on disposal of assets	(436)	28	(527)	28
Interest income and other	235	321	369	406
INCOME BEFORE MINORITY INTERESTS AND INCOME TAX EXPENSE	91,086	50,162	122,886	67,564
Minority interests	(358)	(175)	(516)	(175)
INCOME BEFORE INCOME TAX EXPENSE	90,728	49,987	122,370	67,389
Income tax expense	3,127	748	4,159	2,457
NET INCOME	87,601	49,239	118,211	64,932
GENERAL PARTNER S INTEREST IN NET INCOME	10,456	2,304	16,545	2,617
LIMITED PARTNERS INTEREST IN NET INCOME	$ 77,145	$ 46,935	$ 101,666	$ 62,315

BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 0.82	$ 1.19	$ 1.11	$ 2.37
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	94,177,730	39,373,125	91,697,190	26,308,300
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 0.82	$ 1.19	$ 1.11	$ 2.36
DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	94,468,366	39,422,916	91,916,080	26,357,696

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	Six Months Ended February 28, 2005	Six Months Ended February 29, 2004
		(See Note 2)		(See Note 2)
Net income	$ 87,601	$ 49,239	$ 118,211	$ 64,932
Other comprehensive income				
Reclassification adjustment for losses (gains) on derivative instruments included in net income accounted for as hedges	(4,053)	(6,381)	10,735	(5,900)
Change in value of derivative instruments	17,900	9,729	2,378	8,730
Change in value of available-for-sale securities	1,817	(379)	1,226	(379)
Comprehensive income	$ 103,265	$ 52,208	$ 132,550	$ 67,383
Reconciliation of Accumulated Other Comprehensive Income				
Balance, beginning of period	$ (1,293)	$ (518)	$ 32	$
Current period reclassification to earnings	(4,053)	(6,381)	10,735	(5,900)
Current period change	19,717	9,350	3,604	8,351
Balance, end of period	$ 14,371	$ 2,451	$ 14,371	$ 2,451

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(in thousands, except unit data)

(unaudited)

	Number of Common Units	Common	Class C	Class E	General Partner	Accumulated Other Comprehensive Income	Total
Balance, August 31, 2004	89,118,062	$ 720,187	$	$	$ 26,761	$ 32	$ 746,980
Unit distribution		(75,869)			(10,664)		(86,533)
General Partner capital contribution					3,520		3,520
Issuance of Common Units in connection with certain acquisitions	120,550	2,500					2,500
Issuance of Common Units	6,296,294	169,807					169,807
Issuance of restricted Common Units	43,000						
Subscribed units		180,000					180,000
Net change in accumulated other comprehensive income per accompanying statement						14,339	14,339
Deferred compensation on restricted units and long term incentive plan		804					804
Net income		101,666			16,545		118,211
Balance, February 28, 2005	95,577,906	$ 1,099,095	$	$	$ 36,162	$ 14,371	$ 1,149,628

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	February 28, 2005	**February 29, 2004**
		(See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 118,211	$ 64,932
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	43,223	13,619
Amortization of deferred finance costs charged to interest expense	1,484	1,627
Write off of deferred financing fees	7,968	
Provision for loss on accounts receivable	4,217	84
(Gain) loss on disposal of assets	527	(28)
Non-cash compensation on restricted units and long-term incentive plan	804	
Undistributed earnings of affiliates	(145)	(474)
Deferred income taxes	1,683	(400)
Minority interests	562	(213)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(49,605)	(74,390)
Accounts receivable from related companies	(3,561)	(3,345)
Inventories	68,509	50,813
Deposits paid to vendors	(27,426)	17,947
Exchanges receivable	272	(224)
Prepaid expenses and other	(1,618)	799
Intangibles and other assets	(120)	(1,677)
Accounts payable	8,930	13,873
Accounts payable to related companies	241	1,524
Exchanges payable	1,122	294
Deposits from customers	116	(7,839)
Accrued and other current liabilities	(12,597)	(7,404)
Other long-term liabilities	(54)	(56)
Income taxes payable	(572)	(1,700)
Price risk management assets and liabilities, net	(5,595)	1,878
Net cash provided by operating activities	156,576	69,640
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisitions, net of cash acquired	(1,113,070)	(165,577)
Investment in unconsolidated subsidiaries	(51)	
Capital expenditures	(75,227)	(45,086)
Proceeds from the sale of assets	2,654	353

Net cash used in investing activities	(1,185,694)	(210,310)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	1,581,530	332,672
Proceeds from short-term borrowings from affiliates	174,624	
Principal payments on debt	(1,032,610)	(283,955)
Net proceeds from issuance of Common Units	169,807	334,835
Proceeds from subscribed units	180,000	
Capital contribution from General Partner	3,520	15,540
Distributions to parent		(196,708)
Debt issuance costs	(15,655)	(4,235)
Unit distributions	(86,533)	
Net cash provided by financing activities	974,683	198,149
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,435)	57,479
CASH AND CASH EQUIVALENTS, beginning of period	81,745	53,122
CASH AND CASH EQUIVALENTS, end of period	$ 27,310	$ 110,601

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	February 28, 2005	February 29, 2004
NONCASH FINANCING ACTIVITIES:		
Notes payable incurred on noncompete agreements	$ 925	$
Issuance of Common Units in connection with certain acquisitions	$ 2,500	$
General Partner capital contribution	$	$ 1,311
Distributions payable to parent	$	$ 12,556
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 35,830	$ 9,050
Cash paid during the period for income taxes	$ 4,807	$ 4,157

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except unit and per unit data)

(unaudited)

1. OPERATIONS AND ORGANIZATION:

The accompanying unaudited consolidated financial statements and notes thereto of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America for interim consolidated financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. Due to the seasonal nature of the Partnership s operations, and the effect of acquisitions, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year. For information regarding the pro forma effects of certain transactions occurring during the periods presented on the historical results of operations, see Note 2.

On January 26, 2005, the Partnership completed its acquisition of the Houston Pipeline System and related storage facilities (HPL). For additional information regarding this acquisition and other acquisitions, see Note 3.

In the opinion of management, all adjustments (all of which are normal and recurring) have been made that are necessary to fairly state the consolidated financial position of Energy Transfer Partners and subsidiaries as of February 28, 2005 and the results of operations for the three-month and six-month periods ended February 28, 2005 and February 29, 2004, respectively, and cash flows for the six-month periods ended February 28, 2005 and February 29, 2004, respectively. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Energy Transfer Partners presented in the Partnership s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on November 15, 2004 for the fiscal year ended August 31, 2004.

Certain prior period amounts have been reclassified to conform with the 2005 presentation. These reclassifications have no impact on net income or total partners capital.

Energy Transfer Transactions

On January 20, 2004, Heritage Propane Partners, L.P., (Heritage) and La Grange Energy, L.P. (now known as Energy Transfer Company, L.P. (LGE)) completed the series of transactions whereby LGE contributed its subsidiary, La Grange Acquisition, L.P. and its subsidiaries and affiliates who conduct business under the assumed name of Energy Transfer Company, (ETC OLP) to Heritage. Simultaneously, LGE acquired the General Partner of Heritage, Energy Transfer Partners GP, L.P. (formerly U.S. Propane, L.P.) from its owners, and Limited Partner Units, Class D Units and Special Units of Heritage, thereby gaining control of Heritage. Simultaneous with these transactions, Heritage purchased the outstanding stock of Heritage Holdings, Inc. (HHI) from the owners of Energy Transfer Partners GP, L.P.

Accounting Treatment of the Energy Transfer Transactions

The Energy Transfer Transactions were accounted for as a reverse acquisition in accordance with Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* (SFAS 141). Although Heritage is the surviving parent entity for legal purposes, ETC OLP is the acquiror for accounting purposes. As a result, ETC OLP s historical financial statements are now the historical financial statements of the registrant. The operations of Heritage prior to the Energy Transfer Transactions are referred to as Heritage. The assets and liabilities of Heritage were initially recorded at fair value to the extent acquired by LGE through its acquisition of the General Partner and limited partner interests of Heritage of approximately 35.4%, determined in accordance with Emerging Issues Task Force (EITF) 90-13 *Accounting for Simultaneous Common Control Mergers* and SFAS 141. The assets and liabilities of ETC OLP have been recorded at historical cost. Although the partners capital accounts of ETC OLP became the capital accounts of the Partnership, Heritage s partnership structure and partnership units survive. Accordingly, the partners capital accounts of ETC OLP were restated based on the general partner interests and units received by LGE in the Energy Transfer Transactions.

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The acquisition of Heritage Holdings by Heritage was accounted for as a capital transaction as the primary asset held by Heritage Holdings was 4,426,916 Common Units of Heritage. Following the acquisition of Heritage Holdings by Heritage, these Common Units were converted to Class E Units. The Class E Units are recorded as treasury units in the consolidated financial statements.

LGE received Special Units in the Energy Transfer Transaction as consideration for the Bossier Pipeline project which was in progress at that time. Upon completion of the Bossier Pipeline in June 2004, the Special Units, which initially had no value assigned, were converted to Common Units, which resulted in additional consideration being recorded. The additional consideration adjusted the percent of Heritage acquired to 41.5% and resulted in an additional fair value step-up to Heritage s assets of approximately $38,000 as determined in accordance with EITF 90-13.

The excess purchase price over Heritage s cost was determined as follows:

Net book value of Heritage at January 20, 2004	$ 239,102
Historical goodwill at January 20, 2004	(170,500)
Equity investment from public offering	355,948
Treasury Class E Unit purchase	(157,340)
	267,210
Percent of Heritage acquired by LGE	41.5%
Equity interest acquired	$ 110,892
Fair market value of Limited Partner Units	668,534
Purchase price of General Partner Interest	30,000
Equity investment from public offering	355,948
Treasury Class E Unit purchase	(157,340)
	897,142
Percent of Heritage acquired by LGE	41.5%
Fair value of equity acquired	372,314
Net book value of equity acquired	110,892
Excess purchase price over Heritage cost	$ 261,422

The excess purchase price over Heritage cost was allocated as follows:

Property, plant and equipment (25 year life)	$ 35,269
Customer lists (15 year life)	18,926
Trademarks	19,251
Goodwill	187,976
	$ 261,422

Management obtained an independent valuation and has made the final modifications to the purchase price. The table above reflects the adjustments made to the allocation of the purchase price during the first quarter of fiscal year 2005.

Business Operations

In order to simplify the obligations of Energy Transfer Partners under the laws of several jurisdictions in which it conducts business, the Partnership s activities are conducted through two subsidiary operating partnerships, ETC OLP, a Texas limited partnership which is engaged in a variety of natural gas operations, and HOLP, a Delaware limited partnership, which is engaged in retail and wholesale propane operations (collectively the Operating Partnerships). The Partnership, the Operating Partnerships, and their other subsidiaries are collectively referred to in this report as Energy Transfer.

As of February 28, 2005, ETC OLP owns an interest in and operates approximately 12,000 miles of natural gas gathering and transportation pipelines, four natural gas processing plants connected to its gathering systems, 15 natural gas treating facilities and three natural gas storage facilities. As a result of the HPL acquisition, the Partnership has redefined its reportable operating segments as discussed in note 21. The midstream segment focuses on the transportation, gathering, compression, treating, processing and marketing of natural gas. Its operations are currently concentrated in the Austin Chalk trend of southeast Texas, the Anadarko Basin of western Oklahoma, the Permian Basin of west Texas, the Barnett Shale in north Texas and the Bossier Sands in east Texas. The

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transportation and storage segment focuses on the transportation of natural gas through the Oasis Pipeline, the East Texas Pipeline System and the ET Fuel System. The Oasis Pipeline is a 583-mile natural gas pipeline that directly connects the Waha Hub, a major natural gas trading center located in the Permian Basin of west Texas, to the Katy Hub, a major natural gas trading center near Houston, Texas. The East Texas Pipeline System connects natural gas supplies in east Texas to the Oasis Pipeline. The ET Fuel System, which serves some of the most active drilling areas in the United States, is comprised of approximately 2,000 miles of intrastate natural gas pipeline and related natural gas storage facilities located in Texas. 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 major markets such as the Waha Hub, the Katy Hub and the Carthage Hub, three major natural gas trading centers located in Texas. The transportation and storage segment also includes the recently acquired HPL which is comprised of approximately 4,200 miles of intrastate natural gas pipeline, 65 Bcf of working gas underground Bammel storage reservoir and related transportation assets. HPL has access to multiple sources of historically significant natural gas supply reserves from south Texas, the Gulf Coast, 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, Baytown, Beaumont and Port Arthur.

On March 9, 2005, the Partnership announced that it had entered into a definitive agreement with Atlas Pipeline Partners, L.P. to sell the Elk City System consisting of the Oklahoma gathering, treating and processing assets for approximately $190,000 subject to certain adjustments as defined in the purchase and sale agreement. The closing is subject to customary closing conditions and is expected to occur on or about April 14, 2005.

HOLP sells propane and propane-related products to more than 650,000 active residential, commercial, industrial, and agricultural customers in 33 states. HOLP is also a wholesale propane supplier in the United States and in Canada, the latter through its participation in MP Energy Partnership. MP Energy Partnership, a Canadian partnership in which the Partnership owns a 60% interest is engaged in lower-margin wholesale distribution and in supplying HOLP s northern U.S. locations. HOLP buys and sells financial instruments for its own account through its wholly-owned subsidiary, Heritage Energy Resources, L.L.C. (Resources).

Other Developments

On January 27, 2005, the Partnership announced that the Board of Directors of its general partner approved a two-for-one split for each class of the Partnership s limited partner units. The split entitled Unitholders of record at the close of business on February 28, 2005 to receive one additional Partnership unit for each Partnership unit owned on that date. The distribution was made on March 15, 2005. The effect of the split was to double the number of all outstanding Common Units and to reduce by half the minimum quarterly per unit distribution and the targeted distribution levels. All periods presented and all references to Common Units have been restated to reflect the effects of the unit split.

In February, 2005, the Partnership s general partner, U.S. Propane, L.P., changed its name to Energy Transfer Partners GP, L.P. This entity is referred to by us as the General Partner of the Partnership. Concurrently with this name change, the general partner of the General Partner, U.S. Propane, L.L.C., changed its name to Energy Transfer Partners, L.L.C.

New Accounting Standards

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). In March 2005, the Financial Accounting Standards Board (FASB) published FIN 47, which will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations, and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets. FIN 47 clarifies that the term conditional asset retirement obligation as used in Statement SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application of interim financial information is permitted but is not required. Early adoption of this Interpretation is encouraged. As FIN 47 was recently issued, the Partnership has not determined whether the interpretation will have a significant adverse effect on its financial position or results of operations.

SFAS No. 123 (Revised 2004) (SFAS 123R), Share-Based Payment . In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supercedes Accounting Principles Board (APB) Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. We currently do not expect SFAS 123R to have a material impact on our consolidated results of operations, cash flows or financial position.

SFAS No. 153 (SFAS 153), Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29. In December 2004, the FASB issued SFAS 153, which amends APB Opinion No. 29 by eliminating the exception to the fair-value principle for exchanges of similar productive assets, which were accounted for under APB Opinion No. 29 based on the book value of the asset surrendered with no gain or loss recognition. SFAS 153 also eliminates APB 29 s concept of culmination of an earnings process. The amendment requires that an exchange of nonmonetary assets be accounted for at fair value if the exchange has commercial substance and fair value is determinable within reasonable limits. Commercial substance is assessed by comparing the entity s expected cash flows immediately before and after the exchange. If the difference is significant, the transaction is considered to have commercial substance and should be recognized at fair value. SFAS 153 is effective for nonmonetary transactions occurring in fiscal periods beginning after June 15, 2005. The impact of SFAS 153 will depend on the nature and extent of any exchanges of nonmonetary assets after the effective date, but we do not currently expect SFAS 153 to have a material impact on our consolidated results of operations, cash flows or financial position.

EITF Issue No. 03-13 (EITF 03-13), Applying the Conditions in Paragraph 42 of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations. In November 2004, the EITF reached a consensus with respect to evaluating whether the criteria in SFAS 144 has been met for classifying as a discontinued operation a component of an entity that either has been disposed of or is classified as held for sale. To qualify as a discontinued operations, SFAS 144 requires that the cash flows of the disposed component be eliminated from the operations of the ongoing entity and that the ongoing entity not have any significant continuing involvement in the operations of the disposed component after the disposal transaction. The consensus in EITF 03-13 clarifies that the cash flows of the eliminated component are not considered to be eliminated if the continuing cash flows represent direct cash flows, as defined in the consensus. The consensus also requires that the assessment of whether significant continuing involvement exists be made from the perspective of the disposed component. The assessment should consider whether (a) the continuing entity retains an interest in the disposed component sufficient to enable it to exert significant influence over the disposed component s operating and financial policies or (b) the entity and the disposed component are parties to a contract or agreement that gives rise to significant continuing involvement by the ongoing entity. The consensus is to be applied prospectively to a component of an entity that is either disposed or classified held for sale in fiscal periods beginning after December 15, 2004. The impact of EITF 03-13 will depend on the nature and extent of any long-lived assets disposed of or held for sale after the effective date, but we do not currently expect EITF 03-13 to have a material impact on our consolidated results of operations, cash flows or financial position.

2. PRESENTATION OF FINANCIAL INFORMATION:

The accompanying financial statements for the three months and six months ended February 28, 2005 include the results of operations for ETC OLP, consolidated with the results of operations of HOLP and HHI. In addition, the Partnership acquired the controlling interests in HPL on January 26, 2005. The results of operations for the ET Fuel System and HPL are included in the consolidated statement of operations since their respective acquisition dates. The accompanying financial statements for the three and six month periods ended February 29, 2004 include the results of operations for ETC OLP beginning September 1, 2003 consolidated with the results of operations of HOLP and HHI beginning January 20, 2004 after the elimination of significant intercompany balances and transactions. The financial statements for the fiscal period including January 20, 2004 do not include the complete results of operations for both ETC OLP and Heritage for such periods, as they include the results of operations of Heritage only for the period from January 20, 2004 to February 29, 2004. Additionally, on June 2, 2004, ETC OLP acquired the ET Fuel System from TXU Fuel Company, a subsidiary of TXU Corp.

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As stated previously, the financial statements of ETC OLP are the financial statements of the registrant, as ETC OLP was deemed the accounting acquiror from the Energy Transfer Transactions.

The following unaudited pro forma consolidated results of operations for the three and six months ended February 28, 2005 are presented as if the HPL acquisition had been made at the beginning of the periods presented. The unaudited pro forma consolidated results of operations for the three and six months ended February 29, 2004 are presented as if the ET Fuel System acquisition, the HPL acquisition, and the Energy Transfer Transactions had been made at the beginning of the periods presented.

	Three Months Ended February 28, 2005	Six Months Ended February 28, 2005	Three Months Ended February 29, 2004	Six Months Ended February 29, 2004
Revenues	$ 2,233,954	$ 3,999,514	$ 1,612,106	$ 3,047,325
Net income	$ 99,795	$ 124,047	$ 69,591	$ 79,674
Basic earnings per Limited Partner Unit	$ 0.87	$ 1.04	$ 1.26	$ 1.91
Diluted earnings per Limited Partner Unit	$ 0.87	$ 1.04	$ 1.26	$ 1.91

The pro forma consolidated results of operations include adjustments to give effect to depreciation on the step-up of property, plant and equipment, amortization of customer lists, interest expense on acquisition debt, and certain other adjustments. The pro forma consolidated results of operations do not include the effects of the Texas Chalk and Madison Systems acquired in the Devon acquisition or the assets of five propane companies that were acquired during the six months ended February 28, 2005. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the periods presented or the future results of the combined operations.

3. ACQUISITIONS:

In November 2004, the Partnership acquired the Texas Chalk and Madison systems from Devon Gas Services for $64,632 in cash which was principally financed with $60,000 from the ETC OLP s Revolving Credit Facility. These assets include approximately 1,800 miles of gathering and mainline pipeline systems, four natural gas treating plants, condensate stabilization facilities and an 80 MMcf/d gas processing plant. These assets will be integrated into the Southeast Texas System and are expected to provide increased throughput capacity to our existing midstream assets. The acquisition was not material for pro forma disclosure purposes.

In January 2005, the Partnership acquired the controlling interests in HPL from American Electric Power Corporation (AEP) for approximately $825,000 subject to working capital adjustments and financed by the Partnership through a combination of borrowings under its current credit facilities and a private placement of $350,000 of Partnership Common Units with institutional investors. In addition, the Partnership acquired working inventory of natural gas stored in the Bammel storage facility and financed it through a short-term borrowing from an affiliate. The total purchase price of approximately $1,038,000, including $800 in estimated acquisition costs, was allocated to the assets acquired and liabilities assumed. Under the terms of the transaction, the Partnership through ETC OLP, its wholly-owned subsidiary, acquired all but a 2% limited partner interest in HPL. The HPL System is comprised of approximately 4,200 miles of intrastate pipeline with aggregate capacity of 2.4Bcf/d, substantial storage facilities and related transportation assets. The acquisition enables the Partnership to expand its current transportation systems into areas where it previously did not have a presence and, in combination with the Partnership s current midstream assets, provides the premier producing basins in Texas with direct access to the Houston Ship Channel corridor. HPL is included in the transportation and storage operating segment. The unaudited pro forma results of operations as if HPL had been acquired at the beginning of the periods are presented in Note 2 to the consolidated financial statements.

During the six months ended February 28, 2005, HOLP acquired substantially all of the assets of five propane companies. The aggregate purchase price for these acquisitions totaled $14,520 which included $10,703 of cash paid, 120,550 Common Units on a post-split basis issued valued at $2,500 and liabilities assumed of $1,317. In the aggregate, these acquisitions are not material for pro forma disclosure purposes. The cash paid for acquisitions was financed primarily with the HOLP Senior Revolving Acquisition facility.

Each of these acquisitions were accounted for as a business combination using the purchase method of accounting in accordance with the provisions of SFAS 141, and each purchase price has been initially allocated based on the estimated fair value of the individual assets acquired and the liabilities assumed at the date of the respective acquisition. The results of operations for these acquisitions are included in the Consolidated Statement of Operations from the date of the respective acquisition.

The following table presents the allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values for these acquisitions (in thousands):

	Texas Chalk and Madison systems November 2004	HPL January 2005	HOLP acquisitions (aggregated)
Cash and equivalents	$	$ 191	$
Accounts receivable		370,378	245
Inventory		170,405	161
Other current assets		23,567	174
Investments in unconsolidated affiliate		32,940	
Price risk management assets		28,638	
Property, plant, and equipment	66,402	825,077	8,246
Intangibles			3,343
Goodwill			2,351
Total assets acquired	66,402	1,451,196	14,520
Accounts payable	(525)	(313,469)	(115)
Accrued expenses	(1,245)	(36,077)	(276)
Other current liabilities		(13,247)	(1)
Other liabilities		(6,710)	
Price risk management liabilities		(28,638)	
Long-term debt			(925)
Minority interest		(15,129)	
Total liabilities assumed	(1,770)	(413,270)	(1,317)
Net assets acquired	$ 64,632	$ 1,037,926	$ 13,203

The purchase prices have been allocated based on the fair values of the assets acquired and liabilities assumed at the date of acquisition. The preliminary allocation may be adjusted to reflect the final purchase price allocation which will be based on an independent appraisal, if applicable. In addition, the Partnership continues to evaluate the acquisition of HPL and further adjustments may be necessary following an independent appraisal of fair market values and other adjustments under the purchase and sale agreement.

4. USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The natural gas industry conducts its business by processing actual transactions at the end of the month following the month of delivery. Consequently, the most current month s financial results for the midstream and transportation segments are estimated using volume estimates and market prices. Any difference between estimated results and actual results are recognized in the following month s financial statements. Management believes that the operating results estimated for the three months and six months ending February 28, 2005 represent the actual results in all material respects.

Some of the other more significant estimates made by management include, but are not limited to, allowances for doubtful accounts, the fair value of derivative instruments, useful lives for depreciation and amortization, purchase accounting allocations and subsequent realizability of intangible assets, settlement dates for purposes of estimating asset retirement obligations, and general business and medical self-insurance reserves. Actual results could differ from those estimates.

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5. ACCOUNTS RECEIVABLE:

ETC OLP s operations deal with counterparties that are typically either investment grade or are otherwise secured with a letter of credit or other form of security (corporate guaranty or prepayment). Management reviews ETC OLP s accounts receivable balances each week. Credit limits are assigned and monitored for all counterparties of ETC OLP. Management believes that the occurrence of bad debt in the midstream and transportation and storage segments is not significant; therefore, an allowance for doubtful accounts for ETC OLP was not deemed necessary at February 28, 2005 or August 31, 2004. Bad debt expense related to these receivables is recognized at the time an account is deemed uncollectible. There was no bad debt expense recognized for the three or six months ended February 28, 2005 and February 29, 2004 in the midstream and transportation and storage segments.

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

HOLP grants credit to its customers for the purchase of propane and propane-related products. Included in accounts receivable are trade accounts receivable arising from the HOLP s retail and wholesale propane operations. Accounts receivable for retail and wholesale propane are recorded as amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts for the retail and wholesale propane and liquids marketing segments is based on management s assessment of the realizability of customer accounts. Management s assessment is based on the overall creditworthiness of the Partnership s customers, historical trends in collectability, and any specific disputes. The accounts receivable for HOLP were marked to fair market value in connection with the Energy Transfer Transactions. Accounts receivable consisted of the following:

	February 28, 2005	August 31, 2004
Accounts receivable midstream and transportation	$ 597,327	$ 230,101
Accounts receivable propane	98,091	46,990
Less allowance for doubtful accounts	(3,982)	(1,667)
Total, net	$ 691,436	$ 275,424

The activity in the allowance for doubtful accounts for the retail and wholesale propane and liquids marketing segments consisted of the following:

	Three Months Ended		Six Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
Balance, beginning of the period	$ 1,835	$	$ 1,667	$
Provision for loss on accounts receivable	4,049	84	4,217	84
Accounts receivable written off, net of recoveries	(1,902)		(1,902)	

Balance, end of period	$ 3,982	$ 84	$ 3,982	$ 84

6. <u>INVENTORIES</u>:

ETC OLP s inventories consist principally of natural gas held in storage and NGLs required to be maintained in certain pipelines. Natural gas held in storage is valued at the lower of cost or market utilizing the weighted average cost method. NGL inventory is valued at market prices as these amounts turn over monthly, and management believes the costs approximate market value. Propane inventories are valued at the lower of cost or market. The cost of propane inventories is determined using weighted-average cost of propane delivered to the customer service locations, and includes storage fees and inbound freight costs, while the cost of appliances, parts, and fittings is determined by the first-in, first-out method. Inventories consisted of the following:

	February 28, 2005	August 31, 2004
Natural gas, propane and other NGLs	$ 142,900	$ 40,989
Appliances, parts and fittings and other	14,022	12,335
Total inventories	$ 156,922	$ 53,324

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7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs that do not add capacity or extend the useful life are expensed as incurred. Expenditures to refurbish assets that either extend the useful lives of the asset or prevent environmental contamination are capitalized and depreciated over the remaining useful life of the asset. Additionally, the Partnership capitalizes certain costs directly related to the installation of company-owned propane tanks and construction of assets including internal labor costs, interest and engineering costs. Upon disposition or retirement of pipeline components or natural gas plant components, any gain or loss is recorded to accumulated depreciation. When entire pipeline systems, gas plants or other property and equipment are retired or sold, any gain or loss is included in operations.

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Partnership reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was recorded during the periods presented.

Components and useful lives of property, plant and equipment were as follows:

	February 28, 2005	August 31, 2004
Land and improvements	$ 35,616	$ 27,771
Buildings and improvements (10 to 30 years)	53,382	34,574
Pipelines and equipment (10 to 65 years)	1,585,463	833,538
Natural gas storage (40 years)	32,451	24,277
Bulk storage, equipment and facilities (3 to 30 years)	55,484	48,947
Tanks and other equipment (5 to 30 years)	353,541	328,026
Vehicles (5 to 10 years)	69,055	56,922
Right of way (20 to 65 years)	87,744	59,338
Furniture and fixtures (3 to 10 years)	9,239	7,336
Linepack	21,971	12,850
Pad gas	62,656	42,136
Other (5 to 10 years)	31,830	5,581
	2,398,432	1,481,296
Less Accumulated depreciation	(95,705)	(57,346)
	2,302,727	1,423,950
Plus Construction work-in-process	93,373	43,699
Property, plant and equipment, net	$ 2,396,100	$ 1,467,649

Capitalized interest is included for pipeline construction projects. Interest is capitalized based on the current borrowing rate. For the six months and year ended February 28, 2005 and August 31, 2004, $191 and $926, respectively, was capitalized for pipeline construction projects.

8. GOODWILL:

Goodwill is associated with acquisitions made for the Partnership s midstream and retail propane segments. There is no goodwill associated with the transportation segment. Of the $311,295 balance in goodwill, $26,596 is expected to be tax deductible. Goodwill is tested for impairment annually at August 31, in accordance with Statement of Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* (SFAS 142). The changes in the carrying

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amount of goodwill, including the final purchase allocation related to the Energy Transfer Transactions, for the six months ended February 28, 2005 were as follows:

	Midstream	Retail Propane	Total
Balance as of August 31, 2004	$ 13,409	$ 300,311	$ 313,720
Fair value adjustment for final purchase allocation related to the ETC Transactions		(4,842)	(4,842)
Goodwill acquired during the period (including final purchase price adjustments)		2,417	2,417
Impairment losses			
Balance as of February 28, 2005	$ 13,409	$ 297,886	$ 311,295

	Midstream	Retail Propane	Total
Balance as of August 31, 2003	$ 13,409	$	$ 13,409
Goodwill acquired during the year		270,831	270,831
Impairment losses			
Balance as of February 29, 2004	$ 13,409	$ 270,831	$ 284,240

The purchase price of HPL has been allocated using the acquisition methodology used by the Partnership when evaluating potential acquisitions. Early indications are that the purchase price may be assigned to depreciable fixed assets as opposed to non-amortizable intangible assets or goodwill. Goodwill acquired during the year includes final purchase price adjustments for acquisitions that occurred prior to the six months ended February 29, 2004. The Partnership has engaged an appraisal firm to perform the asset appraisal in order to develop a definitive allocation of the purchase price. As a result, the final purchase price allocation may differ from the preliminary allocation. To the extent that the final allocation will result in goodwill, this amount would not be subject to amortization, but would be subject to an annual impairment test and if necessary, written down to a lower fair value should circumstances warrant.

9. DEPOSITS:

Deposits are paid to vendors in ETC OLP s business as prepayments for natural gas deliveries in the following month. The Partnership makes prepayments when the volume of business with a vendor exceeds the Partnership s credit limit and/or when it is economically beneficial to do so. Deposits with vendors for gas purchases were $0 and $3,000 as of February 28, 2005 and August 31, 2004, respectively. The Partnership uses a combination of financial instruments including, but not limited to, futures, price swaps and basis trades to manage its exposure to market fluctuations in the prices of natural gas and NGLs. The Partnership enters into these financial instruments with brokers who are clearing members with the NYMEX and directly with counterparties in the over-the-counter (OTC) market and is subject to margin deposit requirements under the OTC agreements and NYMEX positions. The NYMEX requires brokers to obtain an initial margin deposit based on an expected volume of the trade when the financial instrument is initiated. This amount is paid to the broker by the counterparties when the financial instrument settles. The Partnership also has maintenance margin deposits with certain counterparties in the OTC market. The payments on margin deposits occur when the value of a derivative(s) exceed(s) the Partnership s pre-established credit limit with the counterparty. Margin deposits are returned to the Partnership on the settlement date. The Partnership had deposits with derivative counterparties of $30,449 and $23 as of February 28, 2005 and August 31, 2004, respectively.

Deposits are received from ETC OLP s customers as prepayments for natural gas deliveries in the following month and deposits from propane customers as security for future propane deliveries. Prepayments and security deposits may also be required when customers exceed their credit limits or do not qualify for open credit. Deposits received from customers were $12,312 and $11,378 as of February 28, 2005 and August 31, 2004, respectively.

10. <u>UNIT SUBSCRIPTION</u>:

On January 26, 2005, the Partnership received consideration of $180,000 for 6,666,666 Common Units on a post-split basis pursuant to a Units Purchase Agreement dated January 14, 2005 to issue Common Units to five institutional purchasers. The purchasers of these Common Units requested postponement of the delivery of the Common Units until the Partnership could deliver Common Units that were registered under a Form S-3. The $180,000 proceeds have been recorded as an addition to Common Units on the Partnership s February 28, 2005 Consolidated Balance Sheet and Consolidated Statement of Partners Capital. The number of Common Units subscribed were not included in the total units outstanding as the registered units were issued on March 18, 2005. However, these units were considered outstanding units for purposes of our earnings per unit calculation and were included in the computation of basic and diluted net income per limited partner unit.

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11. SHIPPING AND HANDLING COSTS:

In accordance with the Emerging Issues Task Force Issue 00-10, *Accounting for Shipping and Handling Fees and Costs,* the Partnership has classified \$16,569 and \$5,279 for the three months ended February 28, 2005, and February 29, 2004, respectively, and \$33,394 and \$9,390 for the six months ended February 28, 2005 and February 29, 2004, respectively, from producer payments for natural gas, compression and treating, which can be considered handling costs, as revenue. Shipping and handling costs related to fuel sold are included in cost of sales. The remaining costs of approximately \$11,041 and \$2,661 for the three months ended February 28, 2005 and February 29, 2004, respectively, and \$18,256 and \$4,607 for the six months ended February 28, 2005 and February 29, 2004, respectively, which are included in operating expenses, reflect the cost of fuel consumed for compression and treating. The Partnership does not separately charge shipping and handling costs of propane to customers.

12. INCOME PER LIMITED PARTNER UNIT:

Basic net income per limited partner unit is computed by dividing net income, after considering the General Partner s interest, by the weighted average number of Common Units outstanding inclusive of the subscribed units (see note 10) . Diluted net income per limited partner unit is computed by dividing net income, after considering the General Partner s interest, by the weighted average number of Common Units outstanding and the weighted average number of restricted units (Unit Grants) granted under the Restricted Unit Plan. All limited partnership unit amounts have been restated to reflect the two-for-one split which was completed March 15, 2005 (see Note 1). A reconciliation of net income and weighted average units used in computing basic and diluted net income per unit is as follows:

	For the Three Months Ended		For the Six Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
Basic Net Income per Limited Partner Unit:				
Limited Partners interest in net income	\$ 77,145	\$ 46,935	\$ 101,666	\$ 62,315
Weighted average limited partner units	94,177,730	39,373,125	91,697,190	26,308,300
Basic net income per limited partner unit	\$ 0.82	\$ 1.19	\$ 1.11	\$ 2.37
Diluted Net Income per Limited Partner Unit:				
Limited partners interest in net income	\$ 77,145	\$ 46,935	\$ 101,666	\$ 62,315
Weighted average limited partner units	91,659,212	39,373,125	90,444,888	26,308,300
Dilutive effect of unit grants	2,809,154	49,791	1,471,192	49,396
Weighted average limited partner units, assuming dilutive effect of unit grants	94,468,366	39,422,916	91,916,080	26,357,696
Diluted net income per limited partner unit	\$ 0.82	\$ 1.19	\$ 1.11	\$ 2.36

13. UNIT BASED COMPENSATION PLANS:

The Partnership follows the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-based Compensation* (SFAS 123). SFAS 123 requires that significant assumptions be used during the period to estimate the fair value, which includes the risk-free interest rate used, the expected life of the grants under each of the plans and the expected distributions on each of the units granted. The Partnership assumed a weighted average risk-free interest rate of 2.83% for the three and six months ended February 28, 2005, in estimating the present value of the future cash flows of the distributions during the vesting period on the measurement date of each grant. Annual average cash distributions at the grant date were estimated to be $1.6 on a post-split basis for the three and six months ended February 28, 2005. The expected life of each grant is assumed to be the minimum vesting period under certain performance criteria of each grant. The Partnership recognized compensation expense of $402 and $804, respectively for the three and six months ended February 28, 2005 related to unit based compensation plans. The Partnership did not recognize any compensation expense for the three and six months ended February 29, 2004 as no awards related to these plans were issued during the three or six months ended February 29, 2004.

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2004 Unit Plan

On June 23, 2004 at a special meeting of the Common Unitholders, the Common Unitholders approved the terms of the Partnership s 2004 Unit Plan (the Plan), which provides for awards of Common Units and other rights to the Partnership s employees, officers, and directors. The maximum number of Common Units that may be granted under this Plan is 1,800,000 total units issued on a post-split basis. Any awards that are forfeited or which expire for any reason or any units, which are not used in the settlement of an award, will be available for grant under the Plan. Units to be delivered upon the vesting of awards granted under the Plan may be (i) units acquired by the Partnership in the open market, (ii) units already owned by the Partnership or its General Partner, (iii) units acquired by the Partnership or its General Partner directly from the Partnership, or any other person, (iv) units that are registered under a registration statement for this Plan, (v) Restricted Units, or (vi) any combination of the foregoing.

Employee Grants. The Compensation Committee, in its discretion, may from time to time grant awards to any employee, upon such terms and conditions as it may determine appropriate and in accordance with specific general guidelines as defined by the Plan. All outstanding awards shall fully vest into units upon any change in control as defined by the Plan or upon such terms as the Compensation Committee may require at the time the award is granted. As of February 28, 2005, 259,200 awards on a post-split basis were outstanding under the 2004 Unit Plan, all of which were granted during the six months ended February 28, 2005. These awards will vest proportionately subject to vesting over a three-year period based upon the achievement of certain performance criteria. Vested awards will convert into Common Units upon the third anniversary of the date of the grants. The measuring date for vesting is September 1 of each year. The performance criteria for vesting is based upon the total return to the Partnership s Unitholders as compared to a group of master limited partnership peer companies. The issuance of Common Units pursuant to the 2004 Unit Plan is intended to serve as a means of incentive compensation, therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units.

Director Grants. Each director who is not also (i) a shareholder or a direct or indirect employee of any parent, or (ii) a direct or indirect employee of Energy Transfer Partners, L.L.C. (formerly USP LLC) the Partnership, or a subsidiary (Director Participant), who is elected or appointed to the Board for the first time shall automatically receive, on the date of his or her election or appointment, an award of up to 4,000 units on a post-split basis (the Initial Director s Grant). Commencing on September 1, 2004 and each September 1 thereafter that this Plan is in effect, each Director Participant who is in office on such September 1, shall automatically receive an award of Units equal to $15,000 divided by the fair market value of a Common Units on such date (Annual Director s Grant). Each grant of an award to a Director Participant will vest one-third per year, beginning on the first anniversary date of the Award; provided however, notwithstanding the foregoing, (i) all awards to a Director Participant shall become fully vested upon a change in control, as defined by the Plan, unless voluntarily waived by such Director Participant, and (ii) all awards which have not yet vested on the date a Director Participant ceases to be a director shall vest on such terms as may be determined by the Compensation Committee. As of February 28, 2005, Initial Director s Grants and annual Director s Grants totaling 16,844 units on a post-split basis have been made, of which, 8,844 on a post-split basis were granted during the six months ended February 28, 2005.

Long-Term Incentive Grants. The Compensation Committee may, from time to time, grant awards under the Plan to any executive officer or any employee it may designate as a participant in accordance with general guidelines under the Plan. These guidelines include (i) options to purchase a specified number of units at a specified exercise price, which are clearly designated in the award as either an incentive stock option within the meaning of Section 422 of the Internal Revenue Code, or a non-qualifying stock option that is not intended to qualify as an incentive stock option under Section 422; (ii) Unit Appreciation Rights that specify the terms of the fair market value of the award on the date the unit appreciation right is exercised and the strike price; (iii) units; or (iv) any combination hereof. As of February 28, 2005, there have been no Long-Term Incentive Grants made under the Plan.

This Plan will be administered by the Compensation Committee of the Board of Directors and may be amended from time to time by the Board; provided however, that no amendment will be made without the approval of a majority of the Unitholders (i) if so required under the rules and regulations of the New York Stock Exchange or the Securities and Exchange Commission; (ii) that would extend the maximum period during which an award may be granted under the Plan; (iii) materially increase the cost of the Plan to the Partnership; or (iv) result in this Plan no longer satisfying the requirements of Rule 16b-3 of Section 16 of the Securities and Exchange Act of 1934. This Plan shall terminate no later that the 10th anniversary of its original effective date.

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14. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:

	February 28, 2005	August 31, 2004
1996 8.55% Senior Secured Notes	$ 84,000	$ 84,000
1997 Medium Term Note Program:		
7.17% Series A Senior Secured Notes	12,000	12,000
7.26% Series B Senior Secured Notes	16,000	18,000
6.50% Series C Senior Secured Notes	1,786	1,786
2000 and 2001 Senior Secured Promissory Notes:		
8.47% Series A Senior Secured Notes	9,600	9,600
8.55% Series B Senior Secured Notes	27,429	27,429
8.59% Series C Senior Secured Notes	27,000	27,000
8.67% Series D Senior Secured Notes	58,000	58,000
8.75% Series E Senior Secured Notes	7,000	7,000
8.87% Series F Senior Secured Notes	40,000	40,000
7.21% Series G Senior Secured Notes	15,200	15,200
7.89% Series H Senior Secured Notes	8,000	8,000
7.99% Series I Senior Secured Notes	16,000	16,000
2005 5.95% Senior Notes, net of discount of $8,602	741,398	
Term Loan Facility		725,000
Senior Revolving Acquisition Facility	26,000	23,000
Revolving Credit Facility	483,000	
Swingline Loans	15,000	
Long term portion of the Senior Revolving Working Capital Facility	10,000	10,000
Notes Payable on noncompete agreements with interest imputed at rates averaging 7.38%, due in installments through 2010	16,537	18,218
Other	1,861	1,595
Current maturities of long-term debt	(48,300)	(30,957)
	$ 1,567,511	$ 1,070,871

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Maturities of the Senior Secured Notes, the Medium Term Note Program, the Senior Secured Promissory Notes, and the Senior Notes (the Notes) are as follows:

1996 8.55% Senior Secured Notes:

	mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes:	mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.
Series B Notes:	mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.
Series C Notes:	mature at the rate of $714 on March 13 in each of the years 2000 to and including 2003, $357 on March 13, 2004, $1,071 on March 13, 2005, and $357 in each of the years 2006 and 2007. Interest is paid semi-annually.

2000 and 2001 Senior Secured Promissory Notes:

Series A Notes:	mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.
Series B Notes:	mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.
Series C Notes:	mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.
Series D Notes:	mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.
Series E Notes:	mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.
Series F Notes:	mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.
Series G Notes:	mature at the rate of $3,800 on May 15 in each of the years 2004 to and including 2008. Interest is paid quarterly. $7.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series H Notes:	mature at the rate of $727 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly. $19.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

2005 5.95% Senior Notes:

	mature in one payment of $750,000 on February 1, 2015. Interest is paid semi-annually.

All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of HOLP and its subsidiaries secure the Senior Secured, Medium Term, and Senior Secured Promissory Notes. In addition to the stated interest rate for the Notes, the Partnership is required to pay an additional 1% per annum on the outstanding balance of the Notes at such time as the Notes are not rated investment grade status. As of February 28, 2005 the Notes were rated investment grade thereby alleviating the requirement that HOLP pay the additional 1% interest.

On January 18, 2005, in a Rule 144A private placement offering, the Partnership issued $750,000 in aggregate principal amount of its 5.95% unsecured Senior Notes due on February 1, 2015. The Partnership recorded a discount of $8,678 in connection with the issuance of the Senior Notes. The net proceeds of approximately $741,000 were used to repay the indebtedness and accrued interest outstanding under the then existing credit facilities that were previously secured by the assets of ETC OLP. As a result of the repayment, the Partnership wrote off $7,996 in deferred financing costs and accounted for the write-off as loss on extinguishment of debt in the Consolidated Statement of Operations for the three and six months ended February 28, 2005.

Also on January 18, 2005, the Partnership entered into a $700,000 unsecured Revolving Credit Facility available through January 18, 2010. Amounts borrowed under the Revolving Credit Facility bear interest at a rate based on either a Eurodollar rate, or a prime rate. The weighted average interest rate was 5.48% as of February 28, 2005. The maximum commitment fee payable on the unused portion of the facility is 0.30%. The Partnership borrowed

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$475,000 under the Revolving Credit Facility to fund a portion of the HPL acquisition in January 2005. As of February 28, 2005, $483,000 was outstanding under the Revolving Credit Facility. There was also $750 in letters of credit outstanding as of February 28, 2005, which reduced the amount available for borrowing under the Revolving Credit Facility. The Revolving Credit Facility also offers a Swingline loan option with the maximum borrowing of $30,000 and a daily rate based on the London market. As of February 28, 2005, $15,000 was outstanding under the Swingline loan option. Total amount available under the Credit Agreement as of February 28, 2005 was $231,250.

ETC OLP and its designated subsidiaries act as the guarantor of the debt obligations for the Senior Unsecured Notes issued on January 18, 2005 and the Revolving Credit Facility. If the Partnership were to default, ETC OLP and the other guarantors would be responsible for full repayment of those obligations. The Senior Notes and Revolving Credit Facility are unsecured and have equal rights to holders of our other current and future unsecured debt.

Effective March 31, 2004, HOLP entered into the Third Amended and Restated Credit Agreement. The terms of the Agreement are as follows:

A $75,000 Senior Revolving Working Capital Facility is available through December 31, 2006. Amounts borrowed under the Working Capital Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The weighted average interest rate was 4.2150% for the amount outstanding at February 28, 2005. The maximum commitment fee payable on the unused portion of the facility is 0.50%. HOLP must reduce the principal amount of working capital borrowings to $10,000 for a period of not less than 30 consecutive days at least one time during each fiscal year. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of HOLP s subsidiaries secure the Senior Revolving Working Capital Facility. As of February 28, 2005, the Senior Revolving Working Capital Facility had a balance outstanding of $51,812, of which $10,000 was long-term and $41,812 was short-term. A $5,000 Letter of Credit issuance is available to HOLP for up to 30 days prior to the maturity date of the Working Capital Facility. Letter of Credit exposure plus the Working Capital Loan cannot exceed the $75,000 maximum Working Capital Facility. HOLP had outstanding Letters of Credit of $1,002 at February 28, 2005.

A $75,000 Senior Revolving Acquisition Facility is available through December 31, 2006. Amounts borrowed under the Acquisition Credit Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The weighted average interest rate was 4.2150% for the amount outstanding at February 28, 2005. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of HOLP s subsidiaries secure the Senior Revolving Acquisition Facility. As of February 28, 2005, the Senior Revolving Acquisition Facility had a balance outstanding of $26,000.

The agreements for each of the Senior Secured Notes, Medium Term Note Program, Senior Secured Promissory Notes, and HOLP s bank credit facilities contain customary restrictive covenants applicable to the Operating Partnerships, including limitations on substantial disposition of assets, changes in ownership of the Operating Partnerships, the level of additional indebtedness and creation of liens. These covenants require HOLP to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as these terms are similarly defined in the bank credit facilities and the Note Agreements) of not more than, 4.50 to 1. The Consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the bank credit facilities and the Note Agreements, Consolidated EBITDA is based upon HOLP EBITDA, as adjusted for the most recent four quarterly periods, and modified to give pro forma effect for acquisitions and divestures made during the test period and is compared to Consolidated Funded Indebtedness as of the test date and the Consolidated Interest Expense for the most recent twelve months. These debt agreements also provide that HOLP may declare, make, or incur a liability to make, restricted payments during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; (b) no default or event of default exists before such restricted payments; and (c) HOLP s restricted payment is not greater than the product of it s Percentage of Aggregate Available Cash multiplied by the Aggregate Partner Obligations (as these terms are similarly defined in the bank credit facilities and the Note Agreements). The debt agreements further provide that HOLP s Available Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes and in addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, and a reserve equal to 25%, 50%, and 75%, respectively, of the principal amount to be repaid on such payment dates.

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In addition, the Indenture relating to the Senior Notes issued on January 18, 2005 and the Revolving Credit Facility contain various covenants related to our ability to incur certain indebtedness, grant certain liens, enter into certain merger, sale or consolidation transactions, enter into sale-lease back transactions, and make certain investments. The Revolving Credit Facility also requires the Partnership to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as similarly defined in the Revolving Credit Agreement) of not more than 4.50 to 1.00 at any time other than during a Specified Acquisition Period (as similarly defined in the Revolving Credit Agreement) and 5.00 to 1.00 during a Specified Acquisition Period. The ratio of Consolidated EBITDA for each period of four consecutive fiscal quarters, to Consolidated Interest Expense (as similarly defined in the Revolving Credit Agreement), will never be less than 3.00 to 1.00.

Failure to comply with the various restrictive and affirmative covenants of the discussed credit facilities and agreements could negatively impact the Partnership s ability to incur additional debt and/or the Partnership s ability to pay distributions. The Partnership and HOLP are required to measure these financial tests and covenants quarterly and were in compliance with all requirements, tests, limitations, and covenants related to the Partnership s and HOLP s debt agreements as of February 28, 2005.

Future maturities of long-term debt for the remainder of the current fiscal year, each of the next five fiscal years and thereafter are $41,319 remaining in 2005; $38,521 in 2006; $74,428 in 2007; $45,104 in 2008; $42,226 in 2009; $522,678 in 2010; and $851,535 thereafter.

Based on the estimated borrowing rates currently available to the Partnership for long-term loans with similar terms and average maturities, the aggregate fair value and carrying amount of long-term debt at February 28, 2005 was $1,640,656 and $1,615,811, respectively. At August 31, 2004, the aggregate fair value and carrying amount was $1,127,971 and $1,101,828, respectively.

15. INVESTMENT IN UNCONSOLIDATED AFFILIATES:

The Partnership owns interests in a number of related businesses that are accounted for using the equity method. In general, the Partnership uses the equity method of accounting for an investment in which there is a 20% to 50% ownership of its outstanding ownership interests and exercises significant influence over its operating and financial policies.

As a result of the HPL acquisition (see note 3), the Partnership acquired a 50% ownership interests in Mid Texas Pipeline Company (MidTexas) which owns a 129-mile transportation pipeline system that connects various receipt points in south Texas to delivery points at the Katy Hub. This pipeline has a throughput capacity of 500 MMcf/d. The investment is accounted for using the equity method of accounting. The Partnership does not exercise management control over MidTexas, and therefore, the entity is precluded from consolidating their financial statements with those of its own.

The equity in earnings of unconsolidated affiliates, individually or in the aggregate, was not significant for the periods presented.

16. COMMITMENTS AND CONTINGENCIES:

Commitments

The Partnership has forward commodity contracts, which will be settled by physical delivery. Short-term contracts, which expire in less than one year, require delivery of up to 506 MMBtu/d. Long-term contracts total require delivery of up to 826 MMBtu/d. The long-term contracts run through July 2013.

The Partnership has signed long-term agreements with several parties committing firm transportation volumes into the Bossier Pipeline which is part of the East Texas Pipeline System. Those commitments include an agreement with XTO Energy Inc. (XTO) to deliver approximately 200 MMBtu/d of natural gas into the pipeline. The term of the XTO agreement began in June 2004 when the pipeline became operational, and expires in June 2012.

In connection with the HPL acquisition in January 2005, the Partnership acquired a sales agreement whereby the Partnership is committed to sell minimum amounts of gas ranging from 20 MMBtu/d to 50 MMBtu/d to a single customer. Future annual minimum sale volumes remaining under the agreement are approximately 3.6 million MMBtu, 9.9 million MMBtu, and 6.9 million MMBtu for the years ended August 31, 2005, 2006, and 2007, respectively. The Partnership also assumed a contract with a service provider which obligates the Partnership to obtain certain compressor, measurement and other services through 2007 with annual payments of approximately $1,800.

The Partnership in the normal course of business, purchases, processes and sells natural gas pursuant to long-term contracts. Such contracts contain terms that are customary in the industry. The Partnership believes that such terms are commercially reasonable and will not have a material adverse effect on the Partnership s financial position or results of operations.

The Partnership has also entered into several propane purchase and supply commitments with varying terms as to quantities and prices. The contracts expire at various dates through March 2005.

Litigation

The Partnership is a party to various legal proceedings and/or regulatory proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Partnership. The Partnership maintains liability insurance with insurers in amounts and with coverage and deductibles that management believes are reasonable and prudent, and which are generally accepted in the industries in which we are engaged. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect us from material expenses related to product liability, personal injury or property damage in the future. Although any litigation is inherently uncertain, based on past experience, the information currently available and the availability of insurance coverage, we do not believe that pending or threatened litigation matters will have a material adverse effect on our financial condition or results of operations.

ETC OLP, may, from time to time, be involved in litigation and claims arising out of its operations in the normal course of business, ETC OLP is not currently a party to any material legal proceedings. In addition, management is not aware of any material legal or governmental proceedings against ETC OLP, or contemplated to be brought against ETC OLP, under the various environmental protection statutes to which it is subject.

Propane is a flammable, combustible gas. Serious personal injury and significant property damage can arise in connection with its storage, transportation or use. In the ordinary course of business, HOLP is sometimes threatened with or is named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury and property damage. HOLP is not currently a party to any material legal or governmental proceedings

Of the pending or threatened matters in which the Partnership or the Operating Partnerships are a party, none have arisen outside the ordinary course of business except for an action filed by Heritage on November 30, 1999 against SCANA Corporation, Cornerstone Ventures, L.P. and Suburban Propane, L.P. (the SCANA litigation). Prior to trial, a settlement was reached with Defendant Cornerstone Ventures, L.P., and they were dismissed from the litigation. On October 21, 2004, the Partnership announced that it received a favorable jury verdict with respect to the SCANA litigation. The jury found in favor of the Partnership on all four claims against SCANA, awarding a total of $48 million in actual and punitive damages. Currently, the court s decisions on a number of post-trial motions have yet to be entered. SCANA has publicly stated that it plans to appeal any adverse judgment by the court. The Partnership cannot predict whether the final judgment will affirm the jury verdict without any modification or whether any appeal of the final judgment by SCANA will be successful. As a result, management cannot yet predict whether the Partnership will receive any of the damages awarded covered by this verdict. Please read Note 8 of the Partnership s Form 10-K for the year ended August 31, 2004 filed with the Securities and Exchange Commission on November 15, 2004 for additional discussion of rights relating to the SCANA litigation.

At the time of the HPL acquisition, the HPL Entities, their parent companies and AEP, were engaged in ongoing litigation with Bank of America (B of A) that related to AEP s acquisition of HPL in the Enron bankruptcy and B of A s financing of cushion gas stored in the Bammel Storage facility (Cushion Gas). We refer to this litigation as the Cushion Gas Litigation . Under the terms of the Purchase and Sale Agreement and the related Cushion Gas Litigation Agreement, AEP and its subsidiaries that were the sellers of the HPL Entities retained control of the Cushion Gas Litigation and have agreed to indemnify ETC OLP and the HPL Entities for any damages arising from the Cushion Gas Litigation and the loss of use of the Cushion Gas, up to a maximum of the amount paid by ETC

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

In the opinion of management, all pending matters are either covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position or results of operations of the Partnership. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred, an accrual is established equal to management s estimate of the likely exposure. For matters that are covered by insurance, the Partnership accrues the related deductible. As of February 28, 2005 and August 31, 2004, an accrual of $826 and $930, respectively, was recorded as accrued and other current liabilities on the Partnership s consolidated balance sheets.

Environmental

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

In conjunction with the October 1, 2002 acquisition of the Texas and Oklahoma natural gas gathering and gas processing assets from Aquila Gas Pipeline, Aquila, Inc. (Aquila) agreed to indemnify ETC OLP for any environmental liabilities that arose from the operation of the assets for the period prior to October 1, 2002. Aquila also agreed to indemnify ETC OLP for 50% of any environmental liabilities that arose from the operations of Oasis Pipe Line Company prior to October 1, 2002. In addition, the Partnership assumed certain environmental remediation matters related to eleven sites in connection with its acquisition of HPL.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, on which the Partnership presently has, or formerly had, retail propane operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. The Partnership has not been named as a potentially responsible party at any of these sites, nor has the Partnership s operations contributed to the environmental issues at these sites. Accordingly, no related liabilities have been recorded in the Partnership s February 28, 2005 and August 31, 2004 balance sheets. Based on information currently available to the Partnership, such projects are not expected to have a material adverse effect on the Partnership s financial condition or results of operations.

In July 2001, Heritage acquired a company that had previously received a request for information from the U.S. Environmental Protection Agency (the EPA) regarding potential contribution to a widespread groundwater contamination problem in San Bernardino, California, known as the Newmark Groundwater Contamination. Although the EPA has indicated that the groundwater contamination may be attributable to releases of solvents from a former military base located within the subject area that occurred long before the facility acquired by Heritage was constructed, it is possible that the EPA may seek to recover all or a portion of groundwater remediation costs from private parties under the

Comprehensive Environmental Response, Compensation, and Liability Act (commonly called Superfund). Based upon information currently available to the Partnership, it is believed that the Partnership s liability if such action were to be taken by the EPA would not have a material adverse effect on the Partnership s financial condition or results of operations.

Environmental exposures and liabilities are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of the Partnership s liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on the results of operations for any single period, the Partnership believes that such costs will not have a material adverse effect on its financial position. The Partnership has accounted for the environmental liabilities in accordance with Statement of Position 96-1, *Environmental Remediation Liabilities*. As of February 28, 2005 and August 31, 2004, an accrual of $1,731 and $896, respectively, was recorded in the Partnership s balance sheets to cover material environmental liabilities, including certain matters assumed in connection with the HPL acquisition. A receivable of $414 and $423 was recorded in the Partnership s balance sheets as of February 28, 2005 and August 2004, respectively, to account for Aquila s share of certain environmental liabilities.

17. PRICE RISK MANAGEMENT ASSETS AND LIABILITIES:

Commodity Price Risk

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

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

The Partnership utilizes various exchange-traded and over-the-counter commodity financial instrument contracts to limit its exposure to margin fluctuations in natural gas and NGL prices. These contracts consist primarily of futures and swaps. The Partnership designates various futures and certain associated basis contracts as cash flow hedging instruments in accordance with SFAS 133. All derivatives are recognized in the balance sheet as price risk management assets or liabilities and are measured at fair value. For those instruments that do not qualify for hedge accounting, the change in market value is recorded as cost of products sold in the consolidated statement of operations. The fair value of price risk management assets and liabilities that are designated and documented as cash flow hedges and determined to be effective are recorded through other comprehensive income. The effective portion of the hedge gain or loss is initially reported as a component of other comprehensive income and when the physical transaction settles, any gain or loss previously recorded in other comprehensive income (loss) on the derivative is recognized in earnings in the consolidated statement of operations. The ineffective portion of the gain or loss is reported immediately in cost of products sold in the consolidated statement of operations. The Partnership reclassified into earnings net gains of $4,053 and net losses of $10,735 for the three and six months ended February 28, 2005, respectively, and net gains of $6,381 and $5,900 for the three and six months ended February 29, 2004, respectively, related to the commodity financial instruments that were initially recorded in accumulated other comprehensive income (loss). A net gain of $440 and a net loss of $14,902 attributable to hedge ineffectiveness were recorded in costs of products sold for the three and six months ended February 28, 2005, respectively, and a net gain of $25 and a net loss of $42 for the three and six months ended February 29, 2004, respectively.

In the course of normal operations, the Partnership routinely enters into contracts such as forward physical contracts for the purchase and sale of natural gas, propane, and other NGLs that qualify for and are designated as a normal purchase and sales contracts. Such contracts are exempt from the fair value accounting requirements of SFAS 133 and are accounted for using traditional accrual accounting. In connection with the HPL acquisition, the Partnership acquired certain physical forward contracts that contain embedded options. These contracts have not been

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designated as normal purchases and sales contracts, and therefore, are marked to market in addition to the financial options that offset them.

The market prices used to value the financial derivative transactions reflect management s estimates considering various factors including closing exchange and over-the-counter quotations, and the time value of the underlying commitments. The values are adjusted to reflect the potential impact of liquidating a position in an orderly manner over a reasonable period of time under present market conditions.

The following table details the outstanding derivatives as of February 28, 2005 and August 31, 2004, respectively:

February 28, 2005:	Commodity	Notional Volume MMBTU	Maturity	Fair Value
Basis Swaps IFERC/Nymex	Gas	93,852,248	2005-2007	$ (91)
Basis Swaps IFERC/Nymex	Gas	164,679,566	2005-2007	860
				$ 769
Swing Swaps IFERC	Gas	211,427,000	2005-2008	$ 85
Swing Swaps IFERC	Gas	59,135,000	2005	73
				$ 158
Futures Nymex	Gas	19,535,000	2005-2007	$ 3,369
Futures Nymex	Gas	70,582,500	2005-2006	(11,667)
				$ (8,298)
Fix/Float Swaps	Gas	7,848,932	2005-2006	$ 17,311
Fix/Float Swaps	Gas	77,500	2005	212
				$ 17,523
Options	Gas	20,620,000	2005-2007	$ 35,170
Options	Gas	22,684,000	2005-2008	(1,228)
				$ 33,942
Forward Contracts	Gas	20,620,000	2005-2007	$ (35,170)
Forward Contracts	Gas	22,684,000	2005-2008	1,228
				$ (33,942)
		Barrels		
NGL Swaps	Condensate	60,000	2005	$ (721)

August 31, 2004:	Commodity	Notional Volume MMBTU	Maturity	Fair Value
Basis Swaps IFERC/Nymex	Gas	54,472,500	2004-2005	$ 1,451
Basis Swaps IFERC/Nymex	Gas	62,767,500	2004-2005	592

				$	2,043
Swing Swaps IFERC	Gas	119,495,000	2004-2005	$	704
Swing Swaps IFERC	Gas	45,265,000	2004-2005		(399)
Swing Swaps IFERC	Gas	76,720,000	2006-2008		
				$	305
Futures Nymex	Gas	10,057,500	2004-2005	$	(1,311)
Futures Nymex	Gas	12,677,500	2004-2005		2,941
				$	1,630
		Barrels			
NGL Swaps	Condensate Propane, Ethane	250,000	2004-2005	$	(86)

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Estimates related to the Partnership s gas marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. The Partnership believes it is protected from the volatility in the energy commodities markets because it does not have unbalanced positions. Long-term physical contracts are tied to index prices. System gas, which is also tied to index prices, will provide the gas required by our long-term physical contracts. When third-party gas is required to supply long-term contracts, a hedge is put in place to protect the margin on the contract. Financial contracts, which are not tied to physical delivery, will be offset with financial contracts to balance the Partnership s positions.

Interest Rate Risk

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

On January 6, 2005, the Partnership entered into a forward-starting interest swap with a notional amount of $300,000 in anticipation of the bonds issued on January 18, 2005. The purpose of entering into this transaction was to effectively hedge the underlying U.S. Treasury rate related to our anticipated issuance of $750,000 in principal amount of fixed rate debt. The settlement of the swap resulted in a loss of $363 which is recorded in accumulated other comprehensive income. The loss is amortized over the term of the bonds as interest expense. The Partnership also entered into a forward starting interest swap with a notional amount of $225,000 in February 2005, in anticipation of the issuance of an additional bond offering in the third fiscal quarter of 2005. Both forward starting interest rate swaps were designated as cash flow hedges under SFAS 133. On February 28, 2005, the outstanding swap had a fair value of $4,677 which is recorded in accumulated other comprehensive income and a component of price risk management assets on the consolidated balance sheet. When the swap settles and the bonds are issued, the gain or loss from the swap will be amortized over the term of the bonds through interest expense. The swap settled on April 1, 2005 for a gain of approximately $7.0 million.

The Partnership also has an interest rate swap with a notional amount of $75,000 that matures in October 2005. Under the terms of the swap agreement, the Partnership will pay a fixed rate of 2.76% and will receive three-month LIBOR with a quarterly settlement. The interest rate swap is not accounted for as a hedge but receives mark to market accounting. Accordingly, changes in the fair value are recorded as a component of interest expense in the consolidated statement of operations.

The following represents gain (loss) on derivative activity for the periods presented:

	Three Months Ended		**Six Months Ended**	
	February 28, 2005	**February 29, 2004**	**February 28, 2005**	**February 29, 2004**
Unrealized gain (loss) recognized in cost of products sold related to Partnership s derivative activity	$ 5,048	$ 7,142	$ (3,255)	$ 11,621
Realized gain (loss) included in cost of products sold	$ 19,124	$ 26	$ 31,660	$ (1,419)
Unrealized gain (loss) on interest rate swap included in interest expense	$ 359	$	$ 861	$
Realized gain (loss) on interest rate swap included in interest expense	$ (131)	$ (623)	$ (364)	$ (1,061)

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18. QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH:

The Partnership Agreement requires that the Partnership will distribute all of its Available Cash to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term Available Cash generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of the Partnership s business, to comply with applicable laws or any debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available Cash is more fully defined in the Partnership Agreement.

Distributions by the Partnership in an amount equal to 100% of Available Cash will generally be made 98% to the Common and Class E Unitholders and 2% to the General Partner, subject to the payment of incentive distributions to the General Partner to the extent that certain target levels of cash distributions are achieved.

On October 15, 2004, the Partnership paid a pre-split quarterly distribution of $0.825 per unit, or $3.30 per unit annually, to the Unitholders of record at the close of business on October 7, 2004. On January 14, 2005, the Partnership paid a pre-split quarterly distribution of $0.875 per unit, or $3.50 per unit annually, to Unitholders of record at the close of business on January 5, 2005. On March 16, 2005, the Partnership announced that it had completed its two-for-one split of the Partnership s units. On March 22, 2005, the Partnership announced that it had declared a cash distribution for the second quarter ended February 28, 2005 on a post-split basis of $0.4625 per unit, or $1.85 per unit annually, an increase of $0.025 per unit per quarter, or $0.10 annually, which on a pre-split basis would have been $0.925 per unit quarterly and $3.70 per unit annually. The distribution is payable on April 14, 2005 to Unitholders of record at the close of business on April 6, 2005. In addition to these quarterly distributions, the General Partner received quarterly distributions for its general partner interest in the Partnership, and incentive distributions to the extent the quarterly distribution exceeded $0.275 per unit post-split. The total amount of distributions declared as of the six months ended February 28, 2005 on Common Units, the Class E, the General Partner interests and the Incentive Distribution Rights totaled $86,349, $6,242, $2,179, and $14,180, respectively. All such distributions were made from Available Cash from Operating Surplus.

19. RELATED PARTY TRANSACTIONS:

Accounts payable to related companies as of February 28, 2005 and August 31, 2004 included $3,760 and $2,856 due to LGE. This amount represents accounts receivable to which LGE is entitled upon their collection.

Accounts payable to related companies as of February 28, 2005 and August 31, 2004 also included approximately $750 and $1,400, respectively, payable to unconsolidated affiliates for purchases of natural gas and operating expenses incurred in the normal course of business.

ETC OLP secures compression services from third parties. Energy Transfer Technologies, Ltd. is one of the entities from which compression services are obtained. Energy Transfer Group, LLC is the general partner of Energy Transfer Technologies, Ltd. These entities are collectively referred to as the ETG Entities . The ETG Entities were not acquired by the Partnership in conjunction with the January 2004 Energy Transfer Transactions. The Partnership s Co-Chief Executive Officers have an indirect ownership in the ETG Entities. In addition, two of the General Partner s directors serve on the Board of Directors of the ETG Entities. The terms of each arrangement to provide compression services are, in the opinion of management, no less favorable than those available from other providers of compression services. For the three and six months ending February 28, 2005, payments totaling $226 and $596 were made to the ETG Entities for compression services provided to and utilized in ETC OLP s operations.

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One of the Partnership s natural gas midstream subsidiaries owns a 50% interest in South Texas Gas Gathering, a joint venture that owns an 80% interest in the Dorado System, a 61-mile gathering system located in South Texas. The other 50% equity interest in South Texas Gas Gathering is owned by one of the General Partner s directors. The Partnership is the operator of the Dorado System. At February 28, 2005 and August 31, 2004, there was a balance of $248 owing to the Partnership by such director of the General Partner for services the Partnership provided as operator.

In connection with the HPL acquisition, ETC OLP entered into a short-term loan agreement with LGE, an affiliate, whereby ETC OLP borrowed $174,624 to acquire the working inventory of natural gas stored in the Bammel storage facility with interest based on the Eurodollar Rate plus 3.0% per annum. The average interest rate at February 28, 2005 was 5.61%. The loan agreement matures on July 25, 2005, and interest, compounded monthly, is due at the time of repayment. The loan is secured by the working inventory of natural gas. ETC OLP also incurred $3,109 in debt issuance costs associated with the loan agreement which will be amortized into interest expense over the term of the loan agreement. As of February 28, 2005, there was accrued interest related to the note of $899.

20. SUMMARIZED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS:

The Partnership s Revolving Credit Facility and Senior Notes are fully and unconditionally guaranteed by ETC OLP and all of the direct and indirect wholly-owned subsidiaries of ETC OLP. HOLP and its direct and indirect subsidiaries and Heritage Holdings, Inc. are not guaranteeing the Partnership s Revolving Credit Facility and Senior Notes. Following are unaudited condensed consolidating financial information of the Partnership, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the Partnership on a consolidated basis. The unaudited condensed consolidating financial information is prepared on the equity method and does not contain related financial statement disclosures that would be required with a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America.

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET

As of February 28, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 4,828	$ 192	$ 22,290	$	$ 27,310
Marketable securities			3,690		3,690
Accounts receivable, net of allowance for doubtful accounts		597,327	94,109		691,436
Receivable from affiliates	5,314	85,795		(87,514)	3,595
Other current assets	5,112	199,222	64,141		268,475
Total current assets	15,254	882,536	184,230	(87,514)	994,506
PROPERTY, PLANT AND EQUIPMENT, net		1,895,729	500,371		2,396,100
INVESTMENT IN AFFILIATES	2,607,022	40,632	146,286	(2,752,795)	41,145
GOODWILL		13,409	297,886		311,295
INTANGIBLES AND OTHER ASSETS, net	3,775	24,465	99,697		127,937
Total assets	$ 2,626,051	$ 2,856,771	$ 1,228,470	$ (2,840,309)	$ 3,870,983
LIABILITIES AND PARTNERS CAPITAL					
CURRENT LIABILITIES:					
Short-term debt to affiliate	$	$ 174,624	$	$	$ 174,624
Working capital facility			41,812		41,812
Accounts payable	40	526,739	70,382		597,161
Advances from affiliates	84,872	4,879	1,829	(87,063)	4,517
Other current liabilities	6,339	93,592	32,594	(451)	132,074
Current maturities of long-term debt	15,000		33,300		48,300
Total current liabilities	106,251	799,834	179,917	(87,514)	998,488
LONG-TERM DEBT, net of discount, less current maturities	1,224,399		343,112		1,567,511
DEFERRED TAXES		53,972	57,607		111,579
OTHER NONCURRENT LIABILITIES		41,853	1,924		43,777
	1,330,650	895,659	582,560	(87,514)	2,721,355
COMMITMENTS AND CONTINGENCIES					
PARTNERS CAPITAL	1,295,401	1,961,112	645,910	(2,752,795)	1,149,628
Total liabilities and partners capital	$ 2,626,051	$ 2,856,771	$ 1,228,470	$ (2,840,309)	$ 3,870,983

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET

As of August 31, 2004

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 9,506	$ 52,054	$ 20,185	$	$ 81,745
Marketable securities			2,464		2,464
Accounts receivable, net of allowance for doubtful accounts		230,101	45,323		275,424
Other current assets	2,465	23,373	57,161	(5,750)	77,249
Total current assets	11,971	305,528	125,133	(5,750)	436,882
PROPERTY, PLANT AND EQUIPMENT, net		970,376	497,273		1,467,649
INVESTMENT IN AFFILIATES	989,834	7,593	155,553	(1,144,970)	8,010
GOODWILL		13,409	300,311		313,720
INTANGIBLES AND OTHER ASSETS, net		9,610	91,234		100,844
LONG-TERM AFFILIATED RECEIVABLE		95,000		(95,000)	
Total assets	$ 1,001,805	$ 1,401,516	$ 1,169,504	$ (1,245,720)	$ 2,327,105
LIABILITIES AND PARTNERS CAPITAL					
CURRENT LIABILITIES:					
Working capital facility	$	$	$ 14,550	$	$ 14,550
Accounts payable	715	217,722	55,685		274,122
Other current liabilities	3,974	32,515	46,669	(5,750)	77,408
Current maturities of long-term debt			30,957		30,957
Total current liabilities	4,689	250,237	147,861	(5,750)	397,037
LONG-TERM DEBT, less current maturities		725,000	345,871		1,070,871
LONG-TERM AFFILIATED PAYABLE	95,000			(95,000)	
DEFERRED TAXES		54,435	55,461		109,896
OTHER NONCURRENT LIABILITIES		846	1,475		2,321
	99,689	1,030,518	550,668	(100,750)	1,580,125
COMMITMENTS AND CONTINGENCIES					
PARTNERS CAPITAL	902,116	370,998	618,836	(1,144,970)	746,980
Total liabilities and partners capital	$ 1,001,805	$ 1,401,516	$ 1,169,504	$ (1,245,720)	$ 2,327,105

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the three months ended February 28, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Midstream and transportation	$	$ 1,171,257	$	$	$ 1,171,257
Propane			288,966		288,966
Other	39		20,313		20,352
Total revenue	39	1,171,257	309,279		1,480,575
COSTS AND EXPENSES:					
Cost of products sold		1,065,475	182,616		1,248,091
Operating expenses		27,313	47,351		74,664
Depreciation and amortization	94	9,346	13,514		22,954
Selling, general and administrative	1,503	7,708	3,551		12,762
Total costs and expenses	1,597	1,109,842	247,032		1,358,471
OPERATING INCOME (LOSS)	(1,558)	61,415	62,247		122,104
OTHER INCOME (EXPENSE):					
Interest expense	(8,443)	(7,077)	(7,916)	506	(22,930)
Loss on extinguishment of debt		(7,996)			(7,996)
Equity in earnings of affiliates	97,624	34	75	(97,624)	109
Gain (loss) on disposal of assets		(5)	(431)		(436)
Interest income and other, net	(22)	854	(91)	(506)	235
INCOME BEFORE MINORITY INTERESTS AND INCOME TAX EXPENSE	87,601	47,225	53,884	(97,624)	91,086
Minority interests		(113)	(245)		(358)
INCOME BEFORE INCOME TAX EXPENSE	87,601	47,112	53,639	(97,624)	90,728
Income tax expense		249	2,878		3,127
NET INCOME	$ 87,601	$ 46,863	$ 50,761	$ (97,624)	$ 87,601

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the three months ended February 29, 2004

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Midstream and transportation	$	$ 493,570	$	$	$ 493,570
Propane			132,453		132,453
Other			8,543		8,543
Total revenue		493,570	140,996		634,566
COSTS AND EXPENSES:					
Cost of products sold		453,377	76,585		529,962
Operating expenses		7,775	22,356		30,131
Depreciation and amortization		4,386	5,086		9,472
Selling, general and administrative	143	4,882	1,357		6,382
Total costs and expenses	143	470,420	105,384		575,947
OPERATING INCOME (LOSS)	(143)	23,150	35,612		58,619
OTHER INCOME (EXPENSE):					
Interest expense		(4,642)	(4,344)		(8,986)
Equity in earnings of affiliates	49,382	164	16	(49,382)	180
Gain on disposal of assets		28			28
Interest income and other, net		324	(3)		321
INCOME BEFORE MINORITY INTERESTS AND INCOME TAX EXPENSE	49,239	19,024	31,281	(49,382)	50,162
Minority interests			(175)		(175)
INCOME BEFORE INCOME TAX EXPENSE	49,239	19,024	31,106	(49,382)	49,987
Income tax expense		700	48		748
NET INCOME	$ 49,239	$ 18,324	$ 31,058	$ (49,382)	$ 49,239

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the six months ended February 28, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Midstream and transportation	$	$ 1,908,407	$	$	$ 1,908,407
Propane			440,199		440,199
Other	39		39,592		39,631
Total revenue	39	1,908,407	479,791		2,388,237
COSTS AND EXPENSES:					
Cost of products sold		1,725,055	288,606		2,013,661
Operating expenses		44,667	91,458		136,125
Depreciation and amortization	94	16,290	26,839		43,223
Selling, general and administrative	2,617	14,872	6,583		24,072
Total costs and expenses	2,711	1,800,884	413,486		2,217,081
OPERATING INCOME (LOSS)	(2,672)	107,523	66,305		171,156
OTHER INCOME (EXPENSE):					
Interest expense	(9,404)	(16,780)	(15,544)	1,467	(40,261)
Loss on extinguishment of debt		(7,996)			(7,996)
Equity in earnings of affiliates	130,287	48	97	(130,287)	145
Gain (loss) on disposal of assets		(22)	(505)		(527)
Interest income and other, net		2,048	(212)	(1,467)	369
INCOME BEFORE MINORITY INTERESTS AND INCOME TAX EXPENSE	118,211	84,821	50,141	(130,287)	122,886
Minority interests		(113)	(403)		(516)
INCOME BEFORE INCOME EXPENSE	118,211	84,708	49,738	(130,287)	122,370
Income tax expense		192	3,967		4,159
NET INCOME	$ 118,211	$ 84,516	$ 45,771	$ (130,287)	$ 118,211

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the six months ended February 29, 2004

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Midstream and transportation	$	$ 912,667	$	$	$ 912,667
Propane			132,453		132,453
Other			8,543		8,543
Total revenue		912,667	140,996		1,053,663
COSTS AND EXPENSES:					
Cost of products sold		835,058	76,585		911,643
Operating expenses		15,161	22,356		37,517
Depreciation and amortization		8,533	5,086		13,619
Selling, general and administrative	143	9,761	1,357		11,261
Total costs and expenses	143	868,513	105,384		974,040
OPERATING INCOME (LOSS)	(143)	44,154	35,612		79,623
OTHER INCOME (EXPENSE):					
Interest expense		(8,476)	(4,344)		(12,820)
Equity in earnings of affiliates	65,075	311	16	(65,075)	327
Gain on disposal of assets		28			28
Interest income and other, net		409	(3)		406
INCOME BEFORE MINORITY INTERESTS AND INCOME TAX EXPENSE	64,932	36,426	31,281	(65,075)	67,564
Minority interests			(175)		(175)
INCOME BEFORE INCOME TAX EXPENSE	64,932	36,426	31,106	(65,075)	67,389
Income tax expense		2,409	48		2,457
NET INCOME	$ 64,932	$ 34,017	$ 31,058	$ (65,075)	$ 64,932

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the six months ended February 28, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	$ (12,387)	$ 146,361	$ 22,602	$	$ 156,576
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash paid for acquisitions, net of cash acquired		(1,102,367)	(10,703)		(1,113,070)
Cash invested in subsidiaries	(1,613,195)	(51)		1,613,195	(51)
Capital expenditures		(50,186)	(25,041)		(75,227)
Proceeds from the sale of assets		23	2,631		2,654
Net cash used in investing activities	(1,613,195)	(1,152,581)	(33,113)	1,613,195	(1,185,694)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings	1,392,001	80,000	109,529		1,581,530
Proceeds from short term borrowings from affiliates		174,624			174,624
Principal payments on debt	(239,000)	(805,000)	(83,610)	95,000	(1,032,610)
Advances from (to) related parties	83,649	(83,649)			
Principal payments received from affiliates		95,000		(95,000)	
Net proceeds from issuance of Common Units	169,807				169,807
Proceeds from subscribed Units	180,000				180,000
Capital contribution from parent	3,520	1,613,195		(1,613,195)	3,520
Distributions to parent		(116,703)	(13,304)	130,007	
Distribution from subsidiaries	130,007			(130,007)	
Debt issuance costs	(12,546)	(3,109)			(15,655)
Unit distributions	(86,533)				(86,533)
Net cash provided by (used in) financing activities	1,620,905	954,358	12,615	(1,613,195)	974,683
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,677)	(51,862)	2,104		(54,435)
CASH AND CASH EQUIVALENTS, beginning of period	9,506	52,054	20,185		81,745