Energy Transfer Partners, L.P.
Form 10-Q
January 09, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended November 30, 2007

OR

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

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

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

3738 Oak Lawn Avenue

Dallas, Texas 75219

(Address of principal executive offices and zip code)

(214) 981-0700

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non accelerated filer ¨

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

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

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

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Energy Transfer Partners, L.P. and Subsidiaries

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Forward-Looking Statements

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

Actual results may differ materially from any results projected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks, difficult to predict, and beyond management s control. For additional discussion of risks, uncertainties and assumptions, see Part II Other Information Item 1A, Risk Factors in this Quarterly Report on Form 10-Q as well as the Partnership s Annual Report on Form 10-K for the fiscal year ended August 31, 2007 filed with the Securities and Exchange Commission on October 30, 2007.

Definitions

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

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	November 30, 2007	August 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 45,356	$ 68,705
Marketable securities	2,826	3,099
Accounts receivable, net of allowance for doubtful accounts	651,769	637,676
Accounts receivable from related companies	14,864	6,900
Inventories	367,297	192,276
Deposits paid to vendors	69,813	45,490
Prepaid expenses and other current assets	101,969	86,947
Total current assets	1,253,894	1,041,093
PROPERTY, PLANT AND EQUIPMENT, net	6,317,371	5,548,383
ADVANCES TO AND INVESTMENT IN AFFILIATES	72,829	56,564
GOODWILL	727,493	718,429
INTANGIBLES AND OTHER LONG-TERM ASSETS, net	351,855	343,959
Total assets	$ 8,723,442	$ 7,708,428

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	November 30, 2007	August 31, 2007
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Short-term debt	$ 310,000	$
Accounts payable	556,024	487,148
Accounts payable to related companies	36,817	19,471
Exchanges payable	48,711	34,252
Customer advances and deposits	96,663	81,919
Accrued and other current liabilities	321,984	254,396
Current maturities of long-term debt	47,035	47,031
Total current liabilities	1,417,234	924,217
LONG-TERM DEBT, less current maturities	4,116,270	3,626,977
DEFERRED INCOME TAXES	101,335	100,810
OTHER NON-CURRENT LIABILITIES	14,249	16,591
COMMITMENTS AND CONTINGENCIES (Note 13)		
Total liabilities	5,649,088	4,668,595
PARTNERS CAPITAL:		
General Partner	131,777	127,046
Limited Partners:		
Common Unitholders (137,067,059 and 136,981,221 units authorized, issued and outstanding at November 30, 2007 and August 31, 2007, respectively)	2,896,204	2,890,140
Class E Unitholders (8,853,832 units authorized, issued and outstanding held by subsidiary and reported as treasury units)		
	3,027,981	3,017,186
Accumulated other comprehensive income, per accompanying statements	46,373	22,647
Total partners capital	3,074,354	3,039,833
Total liabilities and partners capital	$ 8,723,442	$ 7,708,428

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per unit data)

(unaudited)

	Three Months Ended November 30, 2007	2006
REVENUES:		
Natural gas operations	$ 1,304,965	$ 1,062,444
Retail propane	288,966	266,090
Other	34,266	59,911
Total revenues	1,628,197	1,388,445
COSTS AND EXPENSES:		
Cost of products sold - natural gas operations	944,739	883,983
Cost of products sold - retail propane	192,065	167,619
Cost of products sold - other	11,035	35,741
Operating expenses	161,955	132,381
Depreciation and amortization	52,728	33,809
Selling, general and administrative	42,895	27,070
Total costs and expenses	1,405,417	1,280,603
OPERATING INCOME	222,780	107,842
OTHER INCOME (EXPENSE):		
Interest expense, net of interest capitalized	(49,934)	(41,462)
Equity in earnings (losses) of affiliates	(241)	4,887
Gain on disposal of assets	13,124	1,944
Interest and other income, net	42	1,671
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS	185,771	74,882
Income tax expense	5,523	3,596
INCOME BEFORE MINORITY INTERESTS	180,248	71,286
Minority interests		(254)
NET INCOME	180,248	71,032
GENERAL PARTNER S INTEREST IN NET INCOME	67,599	53,301
LIMITED PARTNERS INTEREST IN NET INCOME	$ 112,649	$ 17,731
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 0.82	$ 0.15
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	137,044,104	119,487,795
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 0.82	$ 0.15

DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	137,287,541	119,779,848

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(unaudited)

	Three Months Ended November 30, 2007	2006
Net income	$ 180,248	$ 71,032
Other comprehensive income (loss), net of tax:		
Reclassification adjustment for gains and losses on derivative instruments accounted for as cash flow hedges included in net income	208	(451)
Change in value of derivative instruments accounted for as cash flow hedges	23,789	53,206
Change in value of available-for-sale securities	(271)	(219)
Comprehensive income	$ 203,974	$ 123,568
Reconciliation of Accumulated Other Comprehensive Income (Loss), net of tax		
Balance, beginning of period	$ 22,647	$ 7,067
Current period reclassification to earnings	208	(451)
Current period change in value	23,518	52,987
Balance, end of period	$ 46,373	$ 59,603
Components of Accumulated Other Comprehensive Income (Loss), net of tax		
Commodity related hedges	$ 45,045	$ 63,798
Interest rate hedges	1,018	(4,277)
Available-for-sale securities	310	82
Balance, end of period	$ 46,373	$ 59,603

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2007

(Dollars in thousands)

(unaudited)

	General Partner	Limited Partner Common Unitholders
Balance, August 31, 2007	$ 127,046	$ 2,890,140
Distributions to partners	(62,897)	(113,080)
Issuance of units from certain acquisitions		1,400
General Partner capital contribution	29	
Tax effect of remedial income allocation from tax amortization of goodwill		(871)
Units returned by employees for tax withholdings		(160)
Non-cash executive compensation		875
Unit-based compensation expense		5,251
Net income	67,599	112,649
Balance, November 30, 2007	$ 131,777	$ 2,896,204

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended November 30, 2007	2006
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 186,976	$ 174,452
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisitions, net of cash acquired	(336,731)	(32,839)
Capital expenditures	(501,329)	(237,113)
Advances to and investment in affiliates	(15,404)	(952,825)
Proceeds from the sale of assets	18,255	7,519
Net cash used in investing activities	(835,209)	(1,215,258)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	1,292,062	1,591,315
Principal payments on debt	(491,019)	(1,631,383)
Net proceeds from issuance of Limited Partner Units		1,200,000
Capital contribution from General Partner	29	24,489
Distributions to partners	(175,977)	(125,774)
Debt issuance costs	(211)	(9,136)
Net cash provided by financing activities	624,884	1,049,511
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,349)	8,705
CASH AND CASH EQUIVALENTS, beginning of period	68,705	26,041
CASH AND CASH EQUIVALENTS, end of period	$ 45,356	$ 34,746

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per unit data)

(unaudited)

1. OPERATIONS AND ORGANIZATION:

The accompanying condensed consolidated balance sheet as of August 31, 2007, which has been derived from audited financial statements, and the unaudited interim financial statements and notes thereto of Energy Transfer Partners, L.P., and subsidiaries (collectively, we or the Partnership) as of November 30, 2007 and for the three-month periods ended November 30, 2007 and 2006, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim consolidated financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Partnership s operations, maintenance activities and the impact of forward natural gas prices and differentials on certain derivative financial instruments that are accounted for using mark-to-market accounting.

In the opinion of management, all adjustments (all of which are normal and recurring) have been made that are necessary to fairly state the consolidated financial position of Energy Transfer Partners, L.P. and subsidiaries as of November 30, 2007, and the Partnership s results of operations and cash flows for the three-month periods ended November 30, 2007 and 2006. 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 for the fiscal year ended August 31, 2007, as filed with the Securities and Exchange Commission on October 30, 2007.

Certain prior period amounts have been reclassified to conform to the fiscal 2008 presentation. These reclassifications had no impact on net income or total partners capital.

On November 9, 2007, we filed a Form 8-K indicating that our Limited Partnership Agreement had been amended to change our fiscal year end to the calendar year. Thus, our next full fiscal year will begin on January 1, 2008.

Business Operations

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

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

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

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

Titan Energy Partners, LP (Titan), a Delaware limited partnership engaged in retail propane operations.
The Partnership, the Operating Partnerships, and their subsidiaries are collectively referred to in this report as we , us , ETP , Energy Transfer or the Partnership.

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

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

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

2. SIGNIFICANT ACQUISITIONS:

Fiscal year 2008

On October 5, 2007, we acquired the Canyon Gathering System midstream business of Canyon Gas Resources, LLC from Cantera Resources Holdings, LLC (the Canyon acquisition) for $305,152 in cash, subject to working capital adjustments as defined in the purchase and sale agreement. The Canyon Gathering System has over 400,000 dedicated acres under long-term contracts. The Canyon assets include a gathering system in the Piceance-Uinta Basin which consists of over 1,800 miles of 2-inch to 16-inch pipe with a projected capacity of over 300,000 MMbtu/d, as well as six conditioning plants for NGL extraction and gas treatment with a processing capacity of 90 MMcf/d. Some of the largest U.S. producers are active in the area and are major customers of the system. The results of the Canyon Gathering System are included in our midstream segment since the acquisition date. The cash paid for this acquisition was financed with borrowings under a new $310,000 term loan facility, as discussed further in Note 11.

The Canyon acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141, and the purchase price was preliminarily allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. We expect to finalize the purchase price allocation in the third calendar quarter of 2008.

The following table presents the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed based on their estimated fair values:

	Canyon Acquisition
Accounts receivable	$ 4,303
Inventory	183
Prepaid and other current assets	1,612
Property, plant, and equipment	284,910
Contract rights and customer lists (6 to 15 year life)	6,351
Goodwill	10,959
Total assets acquired	308,318
Accounts payable	(2,299)
Customer advances and deposits	(867)
Total liabilities assumed	(3,166)
Net assets acquired	$ 305,152

We completed the final purchase price allocation of the Transwestern acquisition during the three months ended November 30, 2007. The adjustments to the purchase price allocation were not material.

Fiscal year 2007

On November 1, 2006, pursuant to agreements entered into with GE Energy Financial Services (GE) and Southern Union Company (Southern Union), we acquired the member interests in CCE Holdings, LLC (CCEH) from GE and certain other investors for $1,000,000. We financed a portion of the CCEH purchase price with the proceeds from our issuance of 26,086,957 Class G Units to Energy Transfer Equity, L.P.

simultaneous with the closing on November 1, 2006. The member interests acquired represented a 50% ownership in CCEH. On December 1, 2006, in a second and related transaction, CCEH redeemed ETP s 50% ownership interest in CCEH in exchange for 100% ownership of Transwestern which owns the Transwestern pipeline. Following the final step, Transwestern became a new operating subsidiary and separate segment of ETP.

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The total acquisition cost for Transwestern, net of cash acquired, was as follows:

Basis of investment in CCEH at November 30, 2006	$ 956,348
Distributions received on December 1, 2006	(6,217)
Fair value of short-term debt assumed	13,000
Fair value of long-term debt assumed	519,377
Other assumed long-term indebtedness	10,096
Current liabilities assumed	35,781
Cash acquired	(3,386)
Acquisition costs incurred	11,696
Total	$ 1,536,695

The Transwestern acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141 and the purchase price was allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. The acquisition of the 50% member interest in CCEH was accounted for under the equity method of accounting in accordance with APB Opinion No. 18, through November 30, 2006. Pro forma effects of the Transwestern acquisition are discussed below.

Pro Forma Results of Operations (Unaudited)

The following unaudited pro forma consolidated results of operations for the three months ended November 30, 2006 are presented as if the Transwestern acquisition had been made on September 1, 2006. The operations of Transwestern have been included in our statements of operations since acquisition.

	Three Months Ended November 30, 2006
Revenues	$ 1,447,337
Net income	$ 86,927
Limited Partners interest in net income	$ 33,309
Basic earnings per Limited Partner Unit	$ 0.24
Diluted earnings per Limited Partner Unit	$ 0.24

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 information is not necessarily indicative of the results of operations that would have occurred had the Transwestern acquisition been made at the beginning of the period presented or the future results of the combined operations.

3. ESTIMATES AND NEW ACCOUNTING STANDARDS:

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

The natural gas industry conducts its business by processing actual transactions at the end of the month following the month of delivery. Consequently, the most current month s financial results for the midstream and transportation and storage segments are estimated using volume estimates and market prices. Any differences between estimated results and actual results are recognized in the following month s financial statements. Management believes that the operating results estimated for the three months ended November 30, 2007 and 2006 represent the actual results in all material respects.

Some of the other more significant estimates made by management include, but are not limited to, the timing of certain forecasted transactions that are hedged, allowances for doubtful accounts, the fair value of derivative instruments, useful lives for depreciation and amortization, purchase accounting allocations and subsequent realizability of intangible assets, estimates related to our unit-based compensation plans, deferred taxes, assets and liabilities resulting from the regulated ratemaking process, contingency reserves and environmental reserves. Actual results could differ from those estimates.

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New Accounting Standards

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN 48 on September 1, 2007, which adoption did not have a significant impact on our consolidated financial statements.

FASB Statement No. 157, *Fair Value Measurement*, (SFAS 157). This standard provides guidance for using fair value to measure assets and liabilities and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. We are currently evaluating this statement and have not yet determined the impact of such on our financial statements. We plan to adopt this statement when required at the start of our calendar year beginning January 1, 2008 (see Note 1).

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

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment applies to all entities with available-for-sale and trading securities. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes the choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157 (discussed above). We are currently evaluating this statement and have not yet determined the impact of such on our consolidated financial statements. We plan to adopt this statement when required at the start of our calendar year beginning January 1, 2008 (see Note 1).

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

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (currently referred to as minority interests) will be valued at fair value at the acquisition date;

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Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;

In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;

Restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and

Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

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

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

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

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

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

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

	Three Months Ended November 30, 2007	Three Months Ended November 30, 2006
Net income	$ 180,248	$ 71,032
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	52,728	33,809
Amortization of finance costs charged to interest	1,076	839
Provision for loss on accounts receivable	421	390
Non-cash compensation on unit grants	5,251	3,164
Non-cash executive compensation	150	
Deferred income taxes	(515)	106
Gain on disposal of assets	(13,124)	(1,944)

Undistributed earnings of affiliates, net	276	(4,887)
Other	(2069)	144
Changes in operating assets and liabilities; net of effects of acquisitions:		
Accounts receivable	1,006	75,630
Accounts receivable from related companies	(7,964)	(341)
Inventories	(173,881)	(112,465)
Deposits paid to vendors	(24,298)	8,579
Exchanges receivable	(3,520)	(4,824)
Prepaid expenses and other	(7,229)	1,809
Intangibles and other long-term assets	2,209	733
Regulatory assets	(1,207)	
Accounts payable	74,172	(14,512)
Accounts payable to related companies	17,346	1,092
Customer advances and deposits	14,676	(7,092)
Exchanges payable	14,445	7,858
Accrued and other current liabilities	25,245	27,784
Other long-term liabilities	(363)	2,713
Income taxes payable	4,920	1,190
Price risk management liabilities, net	26,977	83,645
Net cash provided by operating activities	$ 186,976	$ 174,452

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Non-cash financing and supplemental cash flow information is as follows:

	Three Months Ended November 30, 2007	2006
NON-CASH FINANCING ACTIVITIES:		
Long-term debt assumed and non-compete agreement notes payable issued in acquisitions	$ 3,591	$
Issuance of Common Units in connection with certain acquisitions	$ 1,400	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest, net of $9,008 and $4,802 capitalized for November 30, 2007 and 2006, respectively	$ 43,120	$ 22,695
Cash paid during the period for income taxes	$ 569	$ 3,037

5. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following:

	November 30, 2007	August 31, 2007
Accounts receivable - midstream and intrastate transportation and storage	$ 484,087	$ 529,655
Accounts receivable - interstate transportation	30,073	20,193
Accounts receivable - propane	143,279	93,429
Less - allowance for doubtful accounts	(5,670)	(5,601)
Total, net	$ 651,769	$ 637,676

The activity in the allowance for doubtful accounts for the propane operations consisted of the following:

	Three Months Ended November 30, 2007
Balance, beginning of period	$ 5,601
Provision for loss on accounts receivable	421
Accounts receivable written off, net of recoveries	(352)
Balance, end of period	$ 5,670

6. INVENTORIES:

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

Inventories consisted of the following:

	November 30, 2007	August 31, 2007
Natural gas, propane and other NGLs	$ 348,009	$ 174,164
Appliances, parts and fittings and other	19,288	18,112
Total inventories	$ 367,297	$ 192,276

7. GOODWILL:

Goodwill is associated with acquisitions made for our midstream, intrastate transportation and storage, interstate transportation and retail propane segments. 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 amount of goodwill for the three month period ended November 30, 2007 were as follows:

	Midstream	Intrastate Transportation and Storage	Interstate Transportation	Retail Propane	Total
Balance, August 31, 2007	13,409	10,327	107,550	587,143	718,429
Purchase accounting adjustments			(8,937)	143	(8,794)
Goodwill acquired	10,959			7,173	18,132
Sale of operations				(274)	(274)
Balance, November 30, 2007	$ 24,368	$ 10,327	$ 98,613	$ 594,185	$ 727,493

The purchase price allocations for the Canyon and other fiscal 2008 acquisitions (see Note 2) are preliminary based on estimated fair values. There is no guarantee that the preliminary allocations will not change.

8. ACCRUED AND OTHER CURRENT LIABILITIES:

Accrued and other current liabilities consist of the following:

	November 30, 2007	August 31, 2007
Accrued wages and benefits	$ 39,119	$ 53,109
Capital expenditures	84,128	43,498

Operating expenses	13,792	12,439
Litigation, environmental and other contingencies	36,103	35,707
Interest	49,332	29,828
Income taxes payable	11,155	6,234
Taxes other than income taxes	50,339	42,957
Other	38,016	30,624
Total accrued and other current liabilities	$ 321,984	$ 254,396

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9. INCOME TAXES:

Energy Transfer Partners, L.P. is a limited partnership. As a result, our earnings or losses, to the extent not included in a taxable subsidiary, for federal and state income tax purposes are included in the tax returns of the individual partners. Net earnings for financial statement purposes may differ significantly from taxable income reportable to Unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities, in addition to the allocation requirements related to taxable income under the Partnership Agreement.

As a limited partnership, we are generally not subject to income tax. We are, however, subject to a statutory requirement that our non-qualifying income (including income such as derivative gains from trading activities, service income, tank rentals and others) cannot exceed 10% of our total gross income, determined on a calendar year basis under the applicable income tax provisions. If the amount of our non-qualifying income exceeds this statutory limit, we would be taxed as a corporation. Accordingly, certain activities that generate non-qualified income are conducted through taxable corporate subsidiaries (C corporations). These C corporations are subject to federal and state income tax and pay the income taxes related to the results of their operations. For the three month periods ended November 30, 2007 and 2006, our non-qualifying income did not, or was not expected to, exceed the statutory limit.

Those subsidiaries which are taxable corporations follow the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities settled.

On May 18, 2006, the State of Texas enacted House Bill 3 which replaced the existing state franchise tax with a margin tax . In general, legal entities that conduct business in Texas are subject to the Texas margin tax, including previously non-taxable entities such as limited partnerships and limited liability partnerships. The tax is assessed on Texas sourced taxable margin which is defined as the lesser of (i) 70% of total revenue or (ii) total revenue less (a) cost of goods sold or (b) compensation and benefits. Although the bill states that the margin tax is not an income tax, it has the characteristics of an income tax since it is determined by applying a tax rate to a base that considers both revenues and expenses. Therefore, we have accounted for Texas margin tax as income tax expense in the period subsequent to the law s effective date of January 1, 2007. For the three months ended November 30, 2007, we recognized current state income tax expense related to the Texas margin tax of $2,313. There was no comparable state tax expense for the three months ended November 30, 2006.

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The components of our federal and state income tax provision are summarized as follows:

	Three Months Ended November 30,	
	2007	2006
Current provision:		
Federal	$ 2,106	$ 3,151
State	3,122	340
Total	5,228	3,491