

Energy Transfer Partners, L.P.  
Form 10-Q  
August 08, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012  
or

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

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.  
(Exact name of registrant as specified in its charter)

Delaware  
(state or other jurisdiction of  
incorporation or organization)  
3738 Oak Lawn Avenue, Dallas, Texas 75219  
(Address of principal executive offices) (zip code)  
(214) 981-0700  
(Registrant’s telephone number, including area code)

73-1493906  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

At August 1, 2012, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 245,388,307 Common Units



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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,” the “Partnership,” or “ETP”) in periodic press releases and some oral statements of the Partnership’s officials during presentations about the Partnership, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may,” “will” or similar expressions help identify forward-looking statements. Although the Partnership and its General Partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Partnership’s actual results may vary materially from those anticipated, projected or expected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are 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 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, as well as “Part I — Item 1A. Risk Factors” in the Partnership’s Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on February 22, 2012.

Definitions

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

/d	per day
AmeriGas	AmeriGas Partners, L.P.
AOCI	accumulated other comprehensive income (loss)
Bbls	barrels
Bcf	billion cubic feet
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
CAA	Clean Air Act
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
DOT	U.S. Department of Transportation
El Paso	El Paso Corporation
ETC Compression	ETC Compression, LLC
ETC FEP	ETC Fayetteville Express Pipeline, LLC

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ETC OLP	La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company
ETC Tiger	ETC Tiger Pipeline, LLC
ETE	Energy Transfer Equity, L.P., a publicly traded partnership and the owner of ETP LLC
ET Interstate	Energy Transfer Interstate Holdings, LLC
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETP
Holdco	ETP Holdco Corporation
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
EPA	U.S. Environmental Protection Agency

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Exchange Act	Securities Exchange Act of 1934
FEP	Fayetteville Express Pipeline LLC
FERC	Federal Energy Regulatory Commission
FGT	Florida Gas Transmission Company, LLC
GAAP	accounting principles generally accepted in the United States of America
HOLP	Heritage Operating, L.P.
ICA	Interstate Commerce Act
IDRs	incentive distribution rights
LDH	LDH Energy Asset Holdings LLC
LIBOR	London Interbank Offered Rate
Lone Star	Lone Star NGL LLC
MMBtu	million British thermal units
NGA	Natural Gas Act
NGL	natural gas liquid, such as propane, butane and natural gasoline
NYMEX	New York Mercantile Exchange
OTC	over-the-counter
OSHA	federal Occupational Safety and Health Act
PCBs	polychlorinated biphenyls
PHMSA	Pipeline Hazardous Materials Safety Administration
Regency	Regency Energy Partners LP, a subsidiary of ETE
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
SEC	Securities and Exchange Commission
Southern Union	Southern Union Company, a subsidiary of ETE

Sunoco	Sunoco, Inc.
Sunoco Logistics	Sunoco Logistics Partners L.P.
Tcf	trillion cubic feet
Titan	Titan Energy Partners, L.P.
Transwestern	Transwestern Pipeline Company, LLC

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, gains and losses on disposals of assets, the allowance for equity funds used during construction, unrealized gains and losses on commodity risk management activities, non-cash impairment charges, loss on extinguishment of debt, gain on deconsolidation and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities includes unrealized gains and losses on commodity derivatives and inventory fair value adjustments (excluding lower of cost or market adjustments). Adjusted EBITDA reflects amounts for less than wholly owned subsidiaries and unconsolidated affiliates based on proportionate ownership.



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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$186,910	\$106,816
Marketable securities	11	1,229
Accounts receivable, net of allowance for doubtful accounts of \$538 and \$7,651 as of June 30, 2012 and December 31, 2011, respectively	438,625	568,579
Accounts receivable from related companies	45,242	81,753
Inventories	230,061	306,740
Exchanges receivable	18,511	18,808
Price risk management assets	16,921	11,429
Other current assets	101,280	180,140
Total current assets	1,037,561	1,275,494
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>13,993,414</b>	<b>13,983,888</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>(1,399,713)</b>	<b>(1,677,522)</b>
	<b>12,593,701</b>	<b>12,306,366</b>
<b>ADVANCES TO AND INVESTMENTS IN AFFILIATES</b>	<b>3,259,129</b>	<b>200,612</b>
<b>LONG-TERM PRICE RISK MANAGEMENT ASSETS</b>	<b>38,974</b>	<b>25,537</b>
<b>GOODWILL</b>	<b>600,152</b>	<b>1,219,597</b>
<b>INTANGIBLE ASSETS, net</b>	<b>170,062</b>	<b>331,409</b>
<b>OTHER NON-CURRENT ASSETS, net</b>	<b>159,840</b>	<b>159,601</b>
Total assets	\$17,859,419	\$15,518,616

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

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CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(unaudited)

	June 30, 2012	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$299,322	\$401,053
Accounts payable to related companies	160	33,373
Exchanges payable	12,432	17,906
Price risk management liabilities	9,091	79,518
Accrued and other current liabilities	747,686	629,202
Current maturities of long-term debt	108,050	424,117
Total current liabilities	1,176,741	1,585,169
LONG-TERM DEBT, less current maturities	9,043,393	7,388,170
LONG-TERM PRICE RISK MANAGEMENT LIABILITIES	140,554	42,303
OTHER NON-CURRENT LIABILITIES	167,208	152,550
 <b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>		
 <b>EQUITY:</b>		
General Partner	186,001	181,646
Limited Partners:		
Common Unitholders	6,347,741	5,533,492
Accumulated other comprehensive income (loss)	(12,177	) 6,569
Total partners' capital	6,521,565	5,721,707
Noncontrolling interest	809,958	628,717
Total equity	7,331,523	6,350,424
Total liabilities and equity	\$17,859,419	\$15,518,616

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



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CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per unit data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>REVENUES:</b>				
Natural gas sales	\$456,792	\$684,686	\$878,208	\$1,284,154
NGL sales	334,200	274,785	695,777	431,686
Gathering, transportation and other fees	386,500	379,714	775,244	715,813
Retail propane sales	11,637	220,296	87,082	748,762
Other	51,185	68,614	109,863	135,257
Total revenues	1,240,314	1,628,095	2,546,174	3,315,672
<b>COSTS AND EXPENSES:</b>				
Cost of products sold	667,434	1,008,628	1,440,919	2,003,085
Operating expenses	128,839	189,302	256,829	377,791
Depreciation and amortization	99,102	104,972	201,019	200,936
Selling, general and administrative	55,500	54,774	104,023	100,306
Total costs and expenses	950,875	1,357,676	2,002,790	2,682,118
<b>OPERATING INCOME</b>	<b>289,439</b>	<b>270,419</b>	<b>543,384</b>	<b>633,554</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest capitalized	(134,310 )	(116,466 )	(271,130 )	(223,706 )
Equity in earnings of affiliates	466	5,040	55,091	6,673
Gain on deconsolidation of Propane Business	765	—	1,056,709	—
Gains (losses) on disposal of assets	146	(528 )	(878 )	(2,254 )
Loss on extinguishment of debt	—	—	(115,023 )	—
Gains (losses) on non-hedged interest rate derivatives	(35,917 )	2,111	(8,022 )	3,890
Allowance for equity funds used during construction	123	1,201	227	69
Other, net	3,099	622	3,673	1,972
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>123,811</b>	<b>162,399</b>	<b>1,264,031</b>	<b>420,198</b>
Income tax expense	24	5,783	14,147	16,380
<b>NET INCOME</b>	<b>123,787</b>	<b>156,616</b>	<b>1,249,884</b>	<b>403,818</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>12,366</b>	<b>8,388</b>	<b>23,730</b>	<b>8,388</b>
<b>NET INCOME ATTRIBUTABLE TO PARTNERS</b>	<b>111,421</b>	<b>148,228</b>	<b>1,226,154</b>	<b>395,430</b>
<b>GENERAL PARTNER'S INTEREST IN NET INCOME</b>	<b>108,806</b>	<b>105,892</b>	<b>225,343</b>	<b>213,431</b>
<b>LIMITED PARTNERS' INTEREST IN NET INCOME</b>	<b>\$2,615</b>	<b>\$42,336</b>	<b>\$1,000,811</b>	<b>\$181,999</b>
<b>BASIC NET INCOME PER LIMITED PARTNER UNIT</b>	<b>\$0.00</b>	<b>\$0.19</b>	<b>\$4.35</b>	<b>\$0.89</b>
<b>BASIC AVERAGE NUMBER OF UNITS OUTSTANDING</b>	<b>229,663,164</b>	<b>208,615,415</b>	<b>228,097,706</b>	<b>201,259,140</b>
<b>DILUTED NET INCOME PER LIMITED PARTNER UNIT</b>	<b>\$0.00</b>	<b>\$0.19</b>	<b>\$4.33</b>	<b>\$0.88</b>
<b>DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING</b>	<b>230,680,644</b>	<b>209,675,032</b>	<b>229,141,002</b>	<b>202,364,488</b>

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



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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended		Six Months Ended June 30,	
	June 30, 2012	2011	2012	2011
Net income	\$123,787	\$156,616	\$1,249,884	\$403,818
Other comprehensive income (loss), net of tax:				
Reclassification to earnings of gains and losses on derivative instruments accounted for as cash flow hedges	(6,615	) (5,443	) (10,097	) (22,411
Change in value of derivative instruments accounted for as cash flow hedges	(6,517	) 2,298	13,871	8,457
Change in value of available-for-sale securities	—	(643	) (114	) (35
Change in other comprehensive income (loss) from equity investments	(22,406	) —	(22,406	) —
	(35,538	) (3,788	) (18,746	) (13,989
Comprehensive income	88,249	152,828	1,231,138	389,829
Less: Comprehensive income attributable to noncontrolling interest	12,366	8,388	23,730	8,388
Comprehensive income attributable to partners	\$75,883	\$144,440	\$1,207,408	\$381,441

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2012  
(Dollars in thousands)  
(unaudited)

	General Partner	Limited Partner Common Unitholders	Accumulated Other Comprehensive Income (loss)	Noncontrolling Interest	Total
Balance, December 31, 2011	\$ 181,646	\$ 5,533,492	\$ 6,569	\$ 628,717	\$ 6,350,424
Distributions to partners	(221,001 )	(407,230 )	—	—	(628,231 )
Distributions to noncontrolling interest	—	—	—	(17,743 )	(17,743 )
Units issued for cash	—	93,584	—	—	93,584
Capital contributions from noncontrolling interest	—	—	—	175,254	175,254
Units issued in connection with acquisitions	—	112,000	—	—	112,000
Distributions on unvested unit awards	—	(4,043 )	—	—	(4,043 )
Non-cash compensation expense, net of units tendered by employees for tax withholdings	13	21,074	—	—	21,087
Other comprehensive loss, net of tax	—	—	(18,746 )	—	(18,746 )
Other, net	—	(1,947 )	—	—	(1,947 )
Net income	225,343	1,000,811	—	23,730	1,249,884
Balance, June 30, 2012	\$ 186,001	\$ 6,347,741	\$ (12,177 )	\$ 809,958	\$ 7,331,523

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Six Months Ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$1,249,884	\$403,818
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	201,019	200,936
Amortization of finance costs charged to interest	5,392	4,663
Loss on extinguishment of debt	115,023	—
Non-cash compensation expense	20,992	20,789
Gain on deconsolidation of Propane Business	(1,056,709	) —
Losses on disposal of assets	878	2,254
Distributions on unvested awards	(4,043	) (3,689
Distributions in excess of (less than) equity in earnings of affiliates, net	(118	) 1,885
Other non-cash	8,536	1,267
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidation (see Note 3)	58,635	7,522
Net cash provided by operating activities	599,489	639,445
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for Citrus Merger	(1,895,000	) —
Cash proceeds from contribution and sale of propane operations	1,442,536	—
Cash paid for all other acquisitions, net of cash received	(10,317	) (1,948,611
Capital expenditures (excluding allowance for equity funds used during construction)	(1,016,927	) (621,915
Contributions in aid of construction costs	12,056	13,967
Distributions from (advances to) affiliates, net	51,941	(22,668
Proceeds from the sale of assets	13,265	2,922
Net cash used in investing activities	(1,402,446	) (2,576,305
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	3,288,857	4,171,535
Repayments of long-term debt	(1,986,515	) (2,934,308
Net proceeds from issuance of Limited Partner units	93,584	770,187
Capital contributions received from noncontrolling interest	151,239	591,680
Distributions to partners	(628,231	) (568,607
Distributions to noncontrolling interest	(17,743	) —
Debt issuance costs	(18,140	) (12,261
Net cash provided by financing activities	883,051	2,018,226
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>80,094</b>	<b>81,366</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>106,816</b>	<b>49,540</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$186,910</b>	<b>\$130,906</b>

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

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

(unaudited)

1. OPERATIONS AND ORGANIZATION:

Energy Transfer Partners, L.P. and its subsidiaries (“Energy Transfer Partners,” the “Partnership,” “we” or “ETP”) are managed by ETP’s general partner, ETP GP, which is in turn managed by its general partner, ETP LLC. ETE, a publicly traded master limited partnership, owns ETP LLC, the general partner of our General Partner. The consolidated financial statements of the Partnership presented herein include our operating subsidiaries described below.

Business Operations

Our activities are primarily conducted through our operating subsidiaries (collectively, the “Operating Companies”) as follows:

ETC OLP, a Texas limited partnership engaged in midstream and intrastate transportation and storage natural gas operations. 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 NGLs in the states of Texas, Louisiana, New Mexico, Utah, West Virginia and Colorado. Our intrastate transportation and storage operations primarily focus on transporting natural gas in Texas through our Oasis pipeline, ET Fuel System, East Texas pipeline and HPL System. Our midstream operations focus on the gathering, compression, treating, conditioning and processing of natural gas, primarily on or through our Southeast Texas System, North Texas System and Northern Louisiana assets. We also own and operate natural gas gathering pipelines and conditioning facilities in the Piceance and Uinta Basins of Colorado and Utah, respectively. ETC OLP also owns a 70% interest in Lone Star.

ET Interstate, a Delaware limited liability company with revenues consisting primarily of fees earned from natural gas transportation services and operational gas sales. ET Interstate is the parent company of:

Transwestern, a Delaware limited liability company engaged in interstate transportation of natural gas. Transwestern’s revenues consist primarily of fees earned from natural gas transportation services and operational gas sales.

ETC FEP, a Delaware limited liability company that directly owns a 50% interest in the Fayetteville Express interstate natural gas pipeline.

ETC Tiger, a Delaware limited liability company engaged in interstate transportation of natural gas.

CrossCountry Energy, LLC, a Delaware limited liability company that indirectly owns a 50% interest in Citrus Corp., which owns 100% of the FGT interstate natural gas pipeline.

ETC Compression, a Delaware limited liability company engaged in natural gas compression services and related equipment sales.

On January 12, 2012, we contributed HOLP and Titan, our subsidiaries that formerly operated our propane operations, to AmeriGas. See Note 5.

Our historical financial statements reflect the following reportable business segments: intrastate natural gas transportation and storage; interstate natural gas transportation; midstream; NGL transportation and services; and retail propane and other retail propane related operations.

Preparation of Interim Financial Statements

The accompanying consolidated balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements and notes thereto of the Partnership as of June 30, 2012 and for the three and six month periods ended June 30, 2012 and 2011, have been prepared in accordance with GAAP for interim consolidated financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Partnership’s operations, maintenance activities and the impact of

forward natural gas prices and differentials on certain derivative financial instruments that are accounted for using mark-to-market accounting. Management has evaluated subsequent events through the date the financial statements were issued.

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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 the Partnership as of June 30, 2012, and the Partnership's results of operations and cash flows for the three and six months ended June 30, 2012 and 2011. 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 year ended December 31, 2011, as filed with the SEC on February 22, 2012.

Certain prior period amounts have been reclassified to conform to the 2012 presentation. These reclassifications had no impact on net income or total equity.

**Pending Sunoco Merger**

On April 30, 2012, we announced our entry into a definitive merger agreement whereby we will acquire Sunoco in exchange for ETP Common Units and cash. Under the terms of the merger agreement, Sunoco shareholders may elect to receive, for each Sunoco common share, either \$50.00 in cash, 1.0490 ETP Common Units or a combination of \$25.00 in cash and 0.5245 of an ETP Common Unit. The cash and unit elections, however, will be subject to proration to ensure that the total amount of cash paid and the total number of ETP Common Units issued in the merger to Sunoco shareholders as a whole are equal to the total amount of cash and number of ETP Common Units that would have been paid and issued if all Sunoco shareholders received the standard mix of consideration. Upon closing, Sunoco shareholders are expected to own approximately 20% of ETP's outstanding limited partner units. This transaction is expected to close in the third or fourth quarter of 2012, subject to approval of Sunoco's shareholders and customary regulatory approvals.

Sunoco owns the general partner interest of Sunoco Logistics, consisting of a 2% general partner interest, 100% of the IDRs, and 32.4% of the outstanding common units of Sunoco Logistics. Sunoco also generates cash flow from a portfolio of retail outlets for the sale of gasoline and middle distillates in the east coast, midwest and southeast areas of the United States.

Sunoco Logistics is a publicly traded limited partnership that owns and operates a logistics business consisting of a geographically diverse portfolio of complementary pipeline, terminalling and crude oil acquisition and marketing assets. The refined products pipelines business consists of refined products pipelines located in the northeast, midwest and southwest United States, and equity interests in refined products pipelines. The crude oil pipeline business consists of crude oil pipelines, located principally in Oklahoma and Texas. The terminal facilities business consists of refined products and crude oil terminal capacity at the Nederland Terminal on the Gulf Coast of Texas and capacity at the Eagle Point terminal on the banks of the Delaware River in New Jersey. The crude oil acquisition and marketing business involves the acquisition and marketing of crude oil and is principally conducted in Oklahoma and Texas and consists of crude oil transport trucks and crude oil truck unloading facilities.

**Pending Holdco Transaction**

On June 15, 2012, ETE and ETP entered into a transaction agreement pursuant to which, immediately following and subject to the closing of the Sunoco merger, (i) ETE will contribute its interest in Southern Union into an ETP-controlled entity in exchange for a 60% equity interest in the new entity, to be called ETP Holdco Corporation ("Holdco") and (ii) ETP will contribute its interest in Sunoco to Holdco and will retain a 40% equity interest in Holdco (the "Holdco Transaction"). Prior to the contribution of Sunoco to Holdco, Sunoco will contribute its interests in Sunoco Logistics to ETP in exchange for 50,706,000 Class F Units representing limited partner interests in ETP ("Class F Units") plus an additional number of Class F Units determined based upon the amount of cash contributed to ETP by Sunoco at the closing of the merger, as calculated in accordance with the merger agreement. The Class F Units will be entitled to 35% of the quarterly cash distributions generated by ETP and its subsidiaries other than Holdco, subject to a maximum cash distribution of \$3.75 per Class F Unit per year. Pursuant to a stockholders agreement between ETE and ETP, ETP will control Holdco. Consequently, ETP expects to consolidate Holdco (including Sunoco and Southern Union) in its financial statements subsequent to consummation of the Holdco Transaction.

Southern Union is engaged primarily in the transportation, storage, gathering, processing and distribution of natural gas. Southern Union owns and operates interstate pipeline that transports natural gas from the Gulf of Mexico, South Texas and the Panhandle regions of Texas and Oklahoma to major U.S. markets in the Midwest and Great Lakes

regions. It owns and operates a LNG import terminal located on Louisiana's Gulf Coast. Through Southern Union Gas Services, it owns natural gas and NGL pipelines, cryogenic plants, treating plants and is engaged in connecting producing wells of exploration and production companies to its gathering system, treating natural gas to remove impurities to meet pipeline quality specifications, processing natural gas for the removal of NGLs and redelivering natural gas and NGLs to a variety of markets in West Texas and New Mexico. Southern Union also has regulated utility operations in Missouri and Massachusetts.

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Under the terms of the Holdco transaction agreement, ETE will relinquish an aggregate of \$210 million of IDRs over 12 consecutive quarters following the closing of the Holdco transaction.

**2. ESTIMATES:**

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 our natural gas and NGL related operations 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 estimated operating results represent the actual results in all material respects.

Some of the other significant estimates made by management include, but are not limited to, the timing of certain forecasted transactions that are hedged, the fair value of derivative instruments, useful lives for depreciation and amortization, purchase accounting allocations and subsequent realizability of intangible assets, fair value measurements used in the goodwill impairment test, market value of inventory, assets and liabilities resulting from the regulated ratemaking process, contingency reserves and environmental reserves. Actual values and results could differ from those estimates.

**3. CASH AND CASH EQUIVALENTS:**

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 that are subject to an insignificant risk of changes in value.

We place our cash deposits and temporary cash investments with high credit quality financial institutions. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

The net change in operating assets and liabilities (net of effects of acquisitions and deconsolidation) included in cash flows from operating activities is comprised as follows:

	Six Months Ended June 30,	
	2012	2011
Accounts receivable	\$(2,895	) \$56,486
Accounts receivable from related companies	(44,891	) (46,460
Inventories	(21,632	) 30,464
Exchanges receivable	298	4,130
Other current assets	72,591	(20,539
Other non-current assets, net	4,786	4,038
Accounts payable	(28,755	) (28,009
Accounts payable to related companies	78,093	(12,706
Exchanges payable	(5,473	) 3,468
Accrued and other current liabilities	(9,721	) 21,919
Other non-current liabilities	(5,267	) 10,699
Price risk management assets and liabilities, net	21,501	(15,968
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidation	\$58,635	\$7,522

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Non-cash investing and financing activities are as follows:

	Six Months Ended June 30,	
	2012	2011
<b>NON-CASH INVESTING ACTIVITIES:</b>		
Accrued capital expenditures	\$425,355	\$91,449
AmeriGas limited partner interests received in exchange for contribution of Propane Business (See Note 5)	\$1,123,003	\$—
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Contributions receivable related to non-controlling interest	\$24,015	\$—
Issuance of common units in connection with acquisitions	\$112,000	\$—

**4. INVENTORIES:**

Inventories consisted of the following:

	June 30, 2012	December 31, 2011
Natural gas and NGLs, excluding propane	\$148,974	\$144,251
Propane	—	86,958
Appliances, parts and fittings and other	81,087	75,531
Total inventories	\$230,061	\$306,740

We utilize commodity derivatives to manage price volatility associated with our natural gas inventory and designate certain of these derivatives as fair value hedges for accounting purposes. Changes in fair value of the designated hedged inventory have been recorded in inventory on our consolidated balance sheets and cost of products sold in our consolidated statements of operations.

**5. INVESTMENTS IN AFFILIATES:****Citrus Merger**

On March 26, 2012, ETE consummated the acquisition of Southern Union and, concurrently with the closing of the Southern Union acquisition, CrossCountry Energy, LLC (“CrossCountry”), a subsidiary of Southern Union that indirectly owned a 50% interest in Citrus Corp. (“Citrus”), merged with a subsidiary of ETP and, in connection therewith, ETP paid \$1.9 billion in cash and issued \$105 million of ETP Common Units (the “Citrus Merger”) to a subsidiary of ETE. As a result of the consummation of the Citrus Merger, ETP owns CrossCountry, which in turn owns a 50% interest in Citrus. The other 50% interest in Citrus is owned by a subsidiary of Kinder Morgan, Inc. Citrus owns 100% of FGT, a natural gas pipeline system that originates in Texas and delivers natural gas to the Florida peninsula.

We recorded our investment in Citrus at \$2.0 billion, which exceeded our proportionate share of Citrus' equity by \$1.03 billion, all of which is treated as equity method goodwill due to the application of regulatory accounting.

**Propane Operations**

On January 12, 2012, we contributed our propane operations, consisting of HOLP and Titan (collectively, the “Propane Business”) to AmeriGas. We received approximately \$1.46 billion in cash and approximately 29.6 million AmeriGas Common Units valued at \$1.12 billion at the time of the contribution. In addition, AmeriGas assumed approximately \$71.0 million of existing HOLP debt. We recognized a gain on deconsolidation of \$1.06 billion for the six months ended June 30, 2012. The cash proceeds were used to complete our tender offer of existing debt (see Note 9) in January 2012 and to repay borrowings on our revolving credit facility.

Our investment in AmeriGas reflected \$630.0 million in excess of our proportionate share of AmeriGas' limited partners' capital. Of this excess fair value, \$288.6 million is being amortized over a weighted average period of 14 years, and \$341.4 million is being treated as equity method goodwill and non-amortizable intangible assets.

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In connection with the closing of this transaction, we entered into a support agreement with AmeriGas (See Note 13). Under a unitholder agreement with AmeriGas, we are also obligated to hold the approximately 29.6 million AmeriGas Common Units that we received in this transaction until January 2013.

We have not reflected our Propane Business as discontinued operations as we will have a continuing involvement in this business as a result of our investment in AmeriGas.

In June 2012, we sold the remainder of our retail propane operations, consisting of our cylinder exchange business, to a third party. In connection with the contribution agreement with AmeriGas, certain excess sales proceeds from the sale of the cylinder exchange business were remitted to AmeriGas, and we received net proceeds of approximately \$43.0 million.

**6. GOODWILL AND INTANGIBLE ASSETS:**

A net decrease in goodwill of \$619.4 million was recorded during the six months ended June 30, 2012 primarily due to the contribution of our Propane Business to AmeriGas. See Note 5.

Components and useful lives of intangible assets were as follows:

	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer relationships, contracts and agreements (3 to 46 years)	\$226,176	\$(57,333)	\$338,424	\$(95,239)
Noncompete agreements	—	—	15,431	(7,835)
Patents (9 years)	750	(243)	750	(201)
Other (10 to 15 years)	843	(131)	1,320	(580)
Total amortizable intangible assets	227,769	(57,707)	355,925	(103,855)
Non-amortizable intangible assets:				
Trademarks	—	—	79,339	—
Total intangible assets	\$227,769	\$(57,707)	\$435,264	\$(103,855)

Aggregate amortization expense of intangible assets was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Reported in depreciation and amortization	\$4,058	\$5,364	\$8,465	\$10,415

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

2012 (remainder)	\$7,609
2013	11,694
2014	10,569
2015	10,569
2016	10,569

**7. FAIR VALUE MEASUREMENTS:**

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value. Price risk management assets and liabilities are recorded at fair value.

We have marketable securities, commodity derivatives and interest rate derivatives that are accounted for as assets and liabilities at fair value in our consolidated balance sheets. We determine the fair value of our assets and liabilities subject to fair value measurement by using the highest possible "level" of inputs. Level 1 inputs are observable quotes in an active market for identical assets and liabilities. We consider the valuation of marketable securities and commodity derivatives transacted through a clearing broker with a published price from the appropriate exchange as a Level 1 valuation. Level 2 inputs are inputs observable for similar assets and liabilities. We consider OTC commodity derivatives entered into directly with third





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parties as a Level 2 valuation since the values of these derivatives are quoted on an exchange for similar transactions. Additionally, we consider our options transacted through our clearing broker as having Level 2 inputs due to the level of activity of these contracts on the exchange in which they trade. We consider the valuation of our interest rate derivatives as Level 2 as the primary input, the LIBOR curve, is based on quotes from an active exchange of Eurodollar futures for the same period as the future interest swap settlements and discount the future cash flows accordingly, including the effects of credit risk. Level 3 inputs are unobservable. We currently do not have any recurring fair value measurements that are considered Level 3 valuations. During the period ended June 30, 2012, no transfers were made between any levels within the fair value hierarchy.

Based on the estimated borrowing rates currently available to us and our subsidiaries for loans with similar terms and average maturities, the aggregate fair value and carrying amount of our consolidated debt obligations at June 30, 2012 was \$9.97 billion and \$9.15 billion, respectively. As of December 31, 2011, the aggregate fair value and carrying amount of our consolidated debt obligations was \$8.39 billion and \$7.81 billion, respectively. The fair value of our consolidated debt obligations is a Level 2 valuation based on the observable inputs used for similar liabilities.

The following tables summarize the fair value of our financial assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 based on inputs used to derive their fair values:

	Fair Value Total	Fair Value Measurements at June 30, 2012	
		Level 1	Level 2
<b>Financial Assets:</b>			
Marketable securities	\$11	\$11	\$—
Interest rate derivatives	50,543	—	50,543
<b>Commodity derivatives:</b>			
<b>Natural Gas:</b>			
Basis Swaps IFERC/NYMEX	53,966	53,966	—
Swing Swaps IFERC	5,589	1,390	4,199
Fixed Swaps/Futures	63,572	63,572	—
Options — Puts	3,688	—	3,688
Forward Physical Contracts	976	—	976
<b>Power:</b>			
Forwards	42,504	6,196	36,308
Options — Puts	135	135	—
Total commodity derivatives	170,430	125,259	45,171
Total	\$220,984	\$125,270	\$95,714
<b>Financial Liabilities:</b>			
Interest rate derivatives	\$(140,554)	\$—	\$(140,554)
<b>Commodity derivatives:</b>			
<b>Natural Gas:</b>			
Basis Swaps IFERC/NYMEX	(73,804)	(73,804)	—
Swing Swaps IFERC	(7,504)	(2,668)	(4,836)
Fixed Swaps/Futures	(61,002)	(61,002)	—
Options — Puts	(55)	—	(55)
Options — Calls	(1)	—	(1)
Forward Physical Contracts	(386)	—	(386)
<b>Power:</b>			
Forwards	(41,444)	(776)	(40,668)
Total commodity derivatives	(184,196)	(138,250)	(45,946)
Total	\$(324,750)	\$(138,250)	\$(186,500)



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	Fair Value Total	Fair Value Measurements at December 31, 2011	
		Level 1	Level 2
Financial Assets:			
Marketable securities	\$1,229	\$1,229	\$—
Interest rate derivatives	36,301	—	36,301
Commodity derivatives:			
Natural Gas:			
Basis Swaps IFERC/NYMEX	62,924	62,924	—
Swing Swaps IFERC	15,002	1,687	13,315
Fixed Swaps/Futures	214,572	214,572	—
Options — Puts	6,435	—	6,435
Forward Physical Contracts	699		